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INVESTING IN SMALL BUSINESS: JUMPSTARTING THE ENGINES OF OUR ECONOMY

ROUNDTABLE

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

JANUARY 29, 2009

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INVESTING IN SMALL BUSINESS: JUMPSTARTING THE ENGINES OF OUR ECONOMY

THURSDAY, JANUARY 29, 2009

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The committee met, pursuant to notice, at 9:09 a.m., in Room 428-A, Russell Senate Office Building, Hon. Mary L. Landrieu (chair of the committee) presiding.

Present: Senators Landrieu, Bayh, Cardin, Shaheen, and Isakson.

OPENING STATEMENT OF HON. MARY L. LANDRIEU, CHAIR, AND A U.S. SENATOR FROM LOUISIANA

Chair LANDRIEU. Good morning, everyone. Welcome to the first hearing of the Senate Small Business Committee in this Congress. Let me first welcome all of the members of the Small Business Committee who will be joining us throughout this two-hour round-table.

I also would like to thank particularly our panelists who have joined us. We are anxious to hear your comments, your suggestions and your concerns about some of the issues before the Congress.

Before I introduce our panelists, let me just make a few brief opening remarks and then turn to my colleagues and ask them for a brief opening statement, and then we will try to get right into the questions this morning.

The title of our panel, Investing in Small Business: Jumpstarting the Engines of Our Economy, I think is very appropriate for the situation that we find ourselves in. Our economy is struggling to get traction to create jobs and to sustain the jobs that we have. As you know, the focus of this Committee is going to be, has been and will continue to be, how the Federal Government can be a better, stronger, more reliable partner for the entrepreneurs and small businesses that make up a significant section of this economy.

I would like to mention that my ranking member, Senator Snowe, was planning to be here this morning, but she had the happy occasion to be called by President Obama to join him in a signing of the Ledbetter legislation. So that is where she is. Hopefully she will be joining us later today.

We want to hear from our panelists today, again from business owners and advocates and from organizations representing a vari-

ety of small businesses. We want to hear how this Committee, this Congress and the Federal Government can be stronger, more reliable partners for creating the kind of environment that entrepreneurs need to succeed.

I am particularly proud to welcome the Louisiana panelists who are here, George Swift and D’Juan Hernandez. They have done a wonderful job, specifically in Louisiana, representing areas of the state that were very hard hit in the last several years by natural disasters. So, I welcome them particularly.

Let me mention quickly that under Senator Kerry and Senator Snowe’s leadership, this Committee held several hearings and roundtables last year focused on the credit crunch, and on how we could do a better job in terms of tax policy or investment policy to ease that crunch. That crunch has now turned into a crisis in many ways for small businesses across our country, and we are anxious to hear about that from your perspective.

Unfortunately, just this week, on Tuesday the Labor Department released new unemployment numbers. Two million Americans have lost their jobs in the last four months, and the nation’s average unemployment rate stands at 7.2 percent. In some of the areas, geographic areas that are represented here, those numbers are higher. Thankfully, in some places, Louisiana being one of them, those numbers are lower for a variety of different reasons, but we do recognize that it is a very difficult situation.

Today as we begin—and I turn to my colleagues for their opening remarks—please do not feel constrained to limit your comments to just the workings of the SBA. Although this Committee has jurisdiction over the Small Business Administration, I want and I think the leadership of Senator Snowe as Chair and also of Senator Kerry as Chair, broadened the reach of this Committee to really be an advocate for small business, to give you a platform, to give you a voice, so that we can hear as members of Congress some of your immediate concerns and hopefully, with you, fashion some real solutions.

So with that, let me turn it over, in order of attendance, first to my good friend Senator Cardin from Maryland, who has been a senior, almost a senior member now of this Committee. We have several new members, and I will introduce them in a minute. Ben, we are happy to have you here this morning.

**OPENING STATEMENT OF HON. BENJAMIN L. CARDIN, A U.S.
SENATOR FROM MARYLAND**

Senator CARDIN. Well first let me say what a pleasure it is to have Senator Landrieu as the Chair of this Committee. I really look forward to working on this Committee and helping small business and helping our country by the work of this very important Committee. So it is a real honor to be here on the Committee under your leadership.

It is wonderful to have Senator Shaheen with us on the Committee, and we welcome her to the Small Business Committee.

Madam Chair, let me thank you for convening this as our first meeting of the Committee and bringing together individuals who can really help us understand what is happening out in the com-

munity as far as small businesses are concerned, minority businesses, woman-owned businesses.

I just tell you, my constituents are angry by the manner in which the Government has so far responded to the economic crisis. The TARP program is not very popular, and I think for good reason it is not popular. A lot of money has been put out and Americans say that unless you are a big company, your chances of getting help is not very great.

And they look at the fairness of what our country has done. In this morning's paper I read where major banks that have been coming in or financial institutions that have been coming in asking for assistance from the Federal Government just issued significant bonuses to their employees.

This angers my constituents, and it angers me. So as we look at the use of the second half of the TARP money and as we are now considering an economic stabilization bill of \$825 billion on the floor of the United States Senate, I want to make sure that small businesses, minority-owned businesses, women-owned businesses will get the type of help that is needed for our economy to grow.

I want to make sure that we have a fair program and provide fair assistance. President Obama said that we need to have a Federal involvement that will create jobs. I agree with that. We need a Federal involvement that will invest in America's future so that when we come out of this recession, we have the tools in place for America to grow.

If we do not have small businesses and minority businesses and women-owned, we know we will not have the job growth that we need in this country, because that is where the jobs are created in America. So we want to make sure that at the end of the day we have in place the companies that will permit this nation to once again exercise its economic strength and its growth.

I really do look forward to the presentations from the panel today. I know we need to do a better job with the tools that are available under the SBA. The cost of loans are prohibitive for many companies. I know we have to take a look at our tax code and we know that the Senate Finance Committee and the Appropriations Committee have made certain recommendations and we will be considering them next week on the floor. We welcome your thoughts as to how effective those provisions would be in making sure that small businesses can continue to exist and thrive in our economy.

Madam Chair, I do want to recognize Tim Adams, who is here from the State of Maryland. Tim has been a personal friend and advisor to me on small business issues and has a leadership position in Prince George's County, Maryland with the business community. Tim, it is nice to have you here and I thank you for joining us.

I notice there are other members of the panel that are listed from Washington, D.C., but I am concerned that they may very well be Marylanders, so let me welcome everybody here.

[Laughter.]

Harry Alford. I have to specifically mention Harry because his two sons are here, who are also residents of Maryland. So I welcome all the Marylanders who happen to be here today.

Chair LANDRIEU. As a good politician, he has covered all of his bases this morning.

[Laughter.]

Chair LANDRIEU. Governor Shaheen, let me welcome you not only to the Senate, but to this Committee in particular. I think your expertise as a former governor and leader from your state will bring immeasurable benefit to us.

**OPENING STATEMENT OF HON. JEANNE SHAHEEN, A U.S.
SENATOR FROM NEW HAMPSHIRE**

Senator SHAHEEN. Thank you very much, Chair Landrieu. I am delighted to be appointed to this Committee because, like you and like Senator Cardin, I appreciate the importance of small businesses to the country and to job creation.

It is a particular interest for me as someone representing New Hampshire because most of New Hampshire's employees are in businesses that have 10 or fewer employees. Just to put it in a little better context, 94 percent of New Hampshire companies have fewer than 100 employees. They employ close to half of the state's labor force and approximately 85 percent of all New Hampshire companies employ 19 or fewer employees.

I know I take my life in my hands when I use a Red Sox metaphor, but to put it in perspective, New Hampshire has enough small business employees to fill up Fenway Park about six times. So small business is clearly the engine that drives New Hampshire's economy. As we all know, it is one of the engines that drives the U.S. economy.

I appreciate that it is business, especially small business, that creates jobs, it is not the government. I also know that the government has a role to play and particularly in these tough economic times, we want to make sure that we are doing everything possible, whether it is through the economic stimulus package or other policy proposals, that can benefit and help small businesses grow.

I am delighted to be here on this Committee to try and work in a way that is going to promote small business throughout the country and throughout New Hampshire.

Chair LANDRIEU. Thank you, Governor. We have also been joined by Johnny Isakson, our great Senator from Georgia. We are happy to have you Senator, and we are just offering opening remarks.

**OPENING STATEMENT OF HON. JOHNNY ISAKSON, A U.S.
SENATOR FROM GEORGIA**

Senator ISAKSON. I am going to be very brief. I was a small business person. It is the heart and soul of the American economy. It employs most of the American people and right now we are in a very serious, difficult time in the credit markets, which is impacting small business.

So I am looking forward to hearing from the panelists today on what they see going on, what they think we can do in government to be a catalyst in any way to help energize small business, because if we energize small business and we solve our current credit crisis, business will take us out of the recession that we are in. But all the money in the world is not going to take us out if it is not empowering business to do business.

I am delighted to be here, Madam Chair, and I appreciate the opportunity to participate.

Chair LANDRIEU. Thank you. Well, let's begin, because this is what we are here for—to hear from you all. I would like our participants, if you do not mind, starting with you, Mr. Adams, to go around very briefly, to introduce yourselves and either your business or your association and then I will open it up with the first question to the entire panel. But just a brief introduction.

Mr. ADAMS. Good morning, Senator. I would like to take a moment—

Chair LANDRIEU. If you would turn your mike on and state just your name and your organization.

Mr. ADAMS. Okay. Good morning. My name is Timothy Adams. I am the President and CEO of Systems Applications & Technologies. We are a defense and homeland security firm located corporately out of Maryland.

Chair LANDRIEU. Okay.

Mr. Alford.

Mr. ALFORD. Madam Chair. I am really glad to see you here and to kick this off. I am Harry Alford, President and CEO of the National Black Chamber of Commerce, located here in Washington, D.C. We have 151 chapters within the United States, 40 chapters abroad.

Mr. Adams is on our board and Mr. Hernandez is on the board of our Greater New Orleans chapter, and we are very happy to be here.

Chair LANDRIEU. Thank you.

Mr. CORATOLO. Giovanni Coratolo. I am the Executive Director of the Small and Mid-market Business Councils for the U.S. Chamber of Commerce. Mr. Adams is also part of our councils and part of the chamber. Mr. Swift is also very closely aligned with the U.S. Chamber of Commerce. I am very happy to be here and congratulations on the chairmanship.

Chair LANDRIEU. Thank you. We welcome the Chamber.

Ms. ECKERLY. Susan Eckerly from the National Federation of Independent Business. We are located here in Washington, as well as in every state capital. Thank you.

Mr. FERREIRA. David Ferreira, United States Hispanic Chamber of Commerce. We represent the interests of three million Hispanic-owned businesses throughout the country, especially 200 chambers throughout the country and 20 Hispanic industry associations.

Chair LANDRIEU. Wonderful.

Mr. HERNANDEZ. D'Juan Hernandez. I am President and Chief Executive Officer of Sun Energy, which is a renewable energy company headquartered in the City of New Orleans, and we are one of those small businesses that are driving the economy today.

Also, as Mr. Alford mentioned, I am a member of the Board of Directors of the New Orleans chapter of the Black Chamber, and we are certainly happy to be here. Thank you for inviting us.

Ms. LITTLEJOHN. Virginia Littlejohn. I am Chief Executive Officer and Founder of Quantum Leaps, which is a global accelerator for [inaudible] native New Orleanean, former resident of Maryland. My husband—

[Laughter.]

Senator CARDIN. Then you went and moved to New Hampshire?
[Laughter.]

Chair LANDRIEU. And may I observe that her attire is quite appropriate for today in that it is the first day of Louisiana Mardi Gras. So thank you. A true New Orleanean.

Todd.

Mr. MCCracken. Good morning. I am Todd McCracken. I am the President of the National Small Business Association. In addition to representing small businesses all over the country, we are also a Federal umbrella group for state, local and regional small business organizations across the country.

Chair LANDRIEU. Pull the mike as close to you as you can. I am sorry we do not have one for everyone.

Mr. SHARPE. My name is Joe Sharpe. I am Deputy Director of Economics for the American Legion, which is a veterans service organization.

Ms. SULLIVAN. I am Ann Sullivan. I am representing Women Impacting Public Policy that has 500,000 women business owners across the country and 46 organizations belong to our coalition.

Mr. SWIFT. I am George Swift, President and CEO of the Chamber Southwest and the Southwest Louisiana Economic Development Alliance in Lake Charles, Louisiana. We represent over 1,000 small businesses in the Chamber Southwest and we have our Chairman of the Board, Ken Broussard, with us today also.

Chair LANDRIEU. Well, let me welcome you all. I would like to suggest how we would like to move forward. I am going to pose a few questions. If you want to respond, place your card in an upright position. We ask you to respond briefly. So you may want to pull your card to you, and when you want to be recognized, push your card out.

We are going to try to make this a very informal and lively discussion. We really encourage our members of the Committee to jump in. Let's begin by just throwing out the question to any of you. What are the main challenges that either you as a business owner or your organizations are facing?

If you could limit it to one or two minutes, and tell us what you would like to communicate to those listening and observing this roundtable about the urgency or not of your particular situation.

Mr. Hernandez.

Mr. HERNANDEZ. Senator, I would like to certainly emphasize that the issue for small businesses today is about liquidity. It is about capital access. There certainly are programs available through the Federal Government, through the state government, certainly through local government, but those programs have certainly tightened up in recent years and recent months in particular.

We all know the state of the credit markets today and lenders just are not providing access to capital in the way that small businesses need it today to be able to take advantage of the opportunities that the Federal Government may create by stimulation.

Chair LANDRIEU. Mr. Coratolo.

Mr. CORATOLO. I want to re-emphasize that access to capital is the number one——

Chair LANDRIEU. Can you speak into the microphone, and I am so sorry we do not have one for everyone.

Mr. CORATOLO. I want to re-emphasize that access to capital is the number one issue for small business. We put out a survey to thousands of people nationally and it was through our friends at the Chamber. The two things, the two items that they would most want to see in a stimulus package is tax cuts or incentives to grow their business, but also access to capital comes a very close second as to the main priority within the stimulus and that is through cutting the fees for SBA loans.

This is unprecedented. If you talk to small businesses in the past, normally SBA issues tend to fall to the bottom. In this case, they really rose to the top, even above infrastructure payments.

Quite frankly, this makes this Committee a very pivotal and important Committee to small businesses and as you know, 60 to 80 percent of the jobs are created through small business.

Chair LANDRIEU. I am glad you raised that. I think, Jeanne, you wanted to comment. Senator Shaheen.

Senator SHAHEEN. Well, I wanted to ask a follow-up to both of you, and that was to ask about SBA and whether you are feeling like—you mentioned the fees, Mr. Coratolo. Is it just the fees or are you finding that there are not enough people at SBA who can provide the help that businesses need as they are trying to figure out how to get access, or is it that the underlying funding isn't there for SBA?

Can you be a little more specific about what particular challenges are relative to SBA?

Mr. CORATOLO. Oh, absolutely. I think SBA has some fantastic programs, but we find ourselves in an economic crisis. The few bucks that we give from the Federal Government to SCORE and some of the other programs, SBDC, Veterans business programs, are critical right now. We have to make sure that they are well funded in this type of environment.

Obviously access to capital raises to the top, but we also have to make sure that we have these other programs in place in order to—and well funded—in order to make sure that we have the infrastructure in place to handle the future of small businesses.

Chair LANDRIEU. Senator Cardin.

Senator CARDIN. Just to follow-up on Senator Shaheen's point. The Committees are recommending waiving the fees under the 7(a) Program and I think also under the 504 Program. Waiving the fees obviously make it more advantageous from a cost point of view.

The cost of the SBA loans can become prohibitive, so I understand the waiving of the fees being extremely important. But I think Senator Shaheen was trying to get out if we waive the fees, will the banks make the loans, or do we need to do more in order to make sure the credit will be available, not just the cost of credit, but that there is credit?

Mr. CORATOLO. Oh, absolutely. More needs to be done, because part of that, an important element of that is the secondary markets. Banks have a very—infrastructure currently that makes the loan, sells the guaranteed portion into the secondary market.

Now currently that secondary market is frozen. We have to make sure that we have adequate assets, whether it is through TARP or

TALF, to make sure that there is liquidity into that second market so that banks could recapitalize funding for loans to small business.

Now remember one thing, we are giving money or incentives to banks to make these loans. They do not get one penny of this unless they make the loan. So that is the important factor in this. They are incentivized to make loans and reducing those fees.

Do not create a new program. Let's fix the one that is currently on the books that has worked well for years.

Chair LANDRIEU. I want to recognize Senator Isakson and then I would like to go to Mr. McCracken and then come back to Mr. Alford.

Senator ISAKSON. Mr. Coratolo has hit on—we can stay here all day and talk, but he has hit on the key point that is the problem in the United States. There is no liquidity in the debt markets for anything. Nothing is flowing. Small businesses are suffering, as are big businesses.

Waiving fees on something that is not going to close does not do you any good. What we have got to do is focus a little bit on the banking industry and the finance industry, because to me, they are doing what I am doing. I am holding on to all the cash I have got right now because things are tough. And my kids are doing the same thing. And I think the banks are doing it because they are not sure where the bottom is in terms of this economy.

What we have got to do in the United States Congress are those things that will stimulate people to do business and begin to bring the markets back. That is the key to it. It is not going to be waiving fees and it is not going to be passing a lot of regulations.

When I say stimulation, with all due respect to the House bill, I am talking about the type of tax stimulation and credit depreciation, bonus depreciation, things of that nature, allowing to depreciate capital purchases up to a certain amount and incentivize business to do business and then the banking industry will come back over time and bring the liquidity you are talking about to the secondary market as well.

Chair LANDRIEU. Mr. McCracken.

Mr. MCCracken. Yeah, I just wanted to respond specifically to Senator Shaheen's question and that is, the Fed reiterated this week that they are prepared to purchase these secondary small business loans, the loans in the secondary market. The degree to which that has happened is not clear because that market continues to be not where it needs to be.

So we think the primary thing that needs to happen, in addition to eliminating the fees and increasing the guarantee rate, which I think are crucial to making this happen, is there has to be market fees alone, which does not exist today. The only available place we have right now is the Fed. They have begun buying home mortgages, but these small business loans in the secondary market, temporarily that is something they have got to do or else this is not going to happen.

Chair LANDRIEU. Does anybody have a number or an estimate of what it would cost the Federal Government to actually secure that secondary market; has anybody or any of your organizations crunched those numbers or prepared any testimony?

Mr. Alford, do you want to jump in?

Mr. ALFORD. Let me go back to the SBA, Senator Shaheen. The SBA is dormant. There was a time in the early nineties, mid-nineties, where I knew the name of every district director of the SBA in the country, knew his deputy director, knew the PCRs, knew the business opportunity specialists, and you could go to Los Angeles, to Chicago, to Kansas City and get businesses to sit down and they would get technical assistance and they knew that the SBA was their best resource. It is gone. It has been emaciated from a funding in '93 of 960 million to about 420 million today, maybe at 30 percent strength.

There is no SBA. In terms of TARP, TARP was not meant for small business, particularly minority business, as not one minority business in this nation has been included in TARP contracting wise or lending wise, and contracting is our focus more than capital systems.

We think you get the contract then you get the capital, you get the bonding. We have got a good bonding program that has been tested in Mississippi. Governor Barber has embraced it. We are ready to roll it out nationally. We would like to see the SBA to come by and just take a look at it.

Chair LANDRIEU. Thank you.

Ms. Sullivan.

Ms. SULLIVAN. Well maybe I am jumping ahead a little, but you raised the question about what could we do to stimulate the market for small business, the credit market? So we came up with what we consider a big idea, but one that we hope you would consider putting into place.

We believe that an equity-funded SBA is necessary for stable businesses that want to merge or acquire other businesses with additional capabilities to their own or their weaker competitors frankly that will otherwise go out of business. It would not only save jobs, but it would also create jobs.

Let me just tell you how we arrived at this. We made a bunch of calls to our members and said, will tax breaks make you hire somebody? What will make you grow in this economy? And the answer came back—and we asked people in like Ohio, Indiana, you know, depressed places, and people that are suppliers to auto industry or retail or housing—and they said well demand is not going to go up, so the only way that we can possibly grow is by merging with other small businesses that either bring us additional capabilities or frankly this is the time where you buy up your competitor and spread your cost.

So our idea is that SBA already has an SBIC program and while that may not be a very robust program at this time, we feel that you could use that model too. If you appropriated funds to an equity fund and you allowed the investment companies to take part of accessing that capital, we feel that that would free up something that right now we can not get through the banks or any other place.

So that is our idea. It was run by a lot of people for the stimulus package and we have kind of been told that the stimulus package did not want new program starts. But we would argue this is not an entirely new program start because you have already got a

model in place that if expanded and perhaps simplified and made attractive to investment companies, we would have some money for mergers and acquisitions for stable businesses, not startup businesses, but people that are in a position to grow and have cash right now.

Chair LANDRIEU. Well this is a new and refreshing idea. Does anyone want to comment on it?

Mr. Hernandez.

Mr. HERNANDEZ. Absolutely, Senator. We have an organization in New Orleans that is basically called Start Up New Orleans. It is really a combination of many small business owners who have started businesses in New Orleans post-Katrina, and we have real discussions about what the issues are, at least that we are experiencing as businesses.

The thing that is always at the top of the list, I do not care when we meet and when we talk, is capitalization and access to capital is our issue. We have talked about why doesn't the government take funds that have been directed for economic development, use some portion of those funds for equity use? Why can't the government stimulate equity investment, particularly in this time in our economy where equity holders have lost a lot of their valuation in the market?

They are pulling back on their investments in the market now. They are changing their risk profiles and looking at how am I going to make money in the future.

Well when that happens, I think government's got to step in and say okay, we will shore up those equity bases for you. If you have got an economic development fund in the city of New Orleans, for instance, that is a \$5 million fund. Why can't you take that \$5 million fund, get some form of shore-up from the SBA of a \$5 million match, and then maybe get the business community to step in and match that \$10 million?

Now you have got an equity fund that you can start to lure entrepreneurs to your community with. But in New Orleans, and I say New Orleans because that is where I am and that is where my relevant experience is today, in New Orleans we as entrepreneurs cannot raise money. We spend time in New York. We spend time in California. We spend time in Boston looking for equity sources to fund our businesses.

And for a guy like me that is in the renewable energy business, listen, I am on the front end of the most significant economic trend to hit our country probably in the last 20 years. We are building power generation facilities using renewable resources. Everyone we talk to says that is a fantastic idea, best thing I have heard in my lifetime.

Great. Can we have some money? Well, that is another discussion. That is the issue that we are all facing as entrepreneurs and I would just like to encourage this Committee to look at creative out-of-the-box mechanisms to spur investment in companies.

Chair LANDRIEU. Mr. Adams.

Mr. ADAMS. Yes. Following along the line that I think [inaudible] discuss as well as we talk about small business is also understanding what I like to refer to in my organization as being and that is a tweener, those businesses that are emerging from the

small business arena, some considered too large to be small and too small to be large, which we refer to more formally as the mid-tier businesses.

I think the mid-tier businesses at this time are really poised to create jobs and to move forward. Historically they have been incentivized to grow, but at the current time, it is a concern as to whether or not to grow at this point. To grow out of the small business at this point would mean a much greater competition between the much larger businesses.

As an example, if we average 30 million a year, one year we are a small business, the next year I am now immediately competing against, for example, Lockheed Martin, who has 40 billion in revenues. They refer to it as being a level playing field.

It is obvious that this is not a level playing field. I think one of the things that is very important at this point as we talk about creating equity and being able to do these things is that the SBA—and we strongly look at creating a mid-tier or a mid-size business program.

I think other countries around the world have mid-sized enterprises, but we only have large and small. I think it is very important that we move forward, looking at a mid-size business program.

Chair LANDRIEU. I would like to second that. I have long been an advocate, even well before I got on this Committee, of really being puzzled by the definitions that we use in this country of small business. I think it takes our focus away from the real start up entrepreneurs of four, five, six employees, and what special help they need as they begin to get started and then as they grow to that 50 or 75 or 100 level, and then they take the next leap to a much higher level.

I do not think our SBA, with just the small and large definitions, which seems to get very confusing as far as this Chair is concerned, is sufficient. So, I want to second that and hopefully this Committee can review that designation through the year.

We are joined by Senator Bayh, a senior member of this Committee. Senator, we are happy to have you here. We gave opening remarks briefly. Is there anything you would like to say or add to this discussion?

OPENING STATEMENT OF HON. EVAN BAYH, A U.S. SENATOR FROM INDIANA

Senator BAYH. Just to congratulate you on your chairmanship, Senator Landrieu, and to say this hearing could not be more timely. Small businesses generate the vast majority of new jobs in our economy and so at a time like this when we are all focused on creating new jobs, there is no better place to focus.

And finally, at the time we are providing hundreds of billions of dollars for some of the largest companies and financial institutions, so why not focus upon the most dynamic part of our economy and that is small business.

So I congratulate you on your leadership and thank you for having the hearing. I am just looking for good ideas that will help our people. I know you are too.

Chair LANDRIEU. Thank you, Senator. We have had several this morning. I am going to turn to Ms. Littlejohn and then I am going to go to the next question.

Ms. LITTLEJOHN. I just wanted to say, I think the equity fund idea that Ann Sullivan mentioned is very interesting and builds on the SBIC model, so I think that can really make sense.

To your point, Madam Chair, the rest of the world—and I have been living overseas most of the last five years—but the rest of the world does not call it small business. The rest of the world has a micro enterprise category and then they have small and medium enterprises. I think one of the big mistakes that we have made as a country is that we have not really looked at that growth continuum by the word “small” and I think looking at small and medium and different kinds of policies and financial mixes, access to markets, et cetera, to really grow businesses along the continuum is important.

As we look at trying to overhaul the SBA so that it is more appropriate to the needs of the business community, I think we might look at the small and medium as well as the entrepreneurship piece because we are just kind of locked in in subsets.

Chair LANDRIEU. Thank you.

Mr. Swift.

Mr. SWIFT. I just want to echo what has been said about the access to capital as being the biggest issue. We do find, as Ms. Littlejohn said, the micro enterprise businesses and we categorize those five and under. Employees have tremendous potential to grow and grow our economy and those are the businesses that have a tough time going to the bank. They have a tough time sometimes being taken seriously, but I think that is potential growth.

As an area that has had significant disasters, we have had four hurricanes in the last three years with the major one, Hurricane Rita, in 2005. After that, we had over 3,000 applications for SBA emergency grants. It took months and months and months for most people to find out that they were not going to get the loan or that it was so complicated they did not want to go with it.

In Hurricane Ike, which happened September of this past year, September 13, that was a Saturday. Hurricane Ike hit Southwest Louisiana and Galveston, Texas area Saturday morning. Saturday afternoon we talked to the Louisiana Economic Development Department. They set up a conference call with SBA.

We had SBA counselors arrive in Lake Charles Sunday night. We opened the business counseling center at 8:30 a.m. Monday morning. There was a world of difference in the response and the—but what we found, we had over 300 businesses come in for assistance, but I think a lot of people and a lot of businesses had a feeling that it is no use to go through the SBA procedure. They had done that before and so I think we need to let them know that procedures have been changed and that there is some possibilities for assistance.

I think a lot of them are burned out on the system, so that would be an area that we could emphasize. The small businesses, micro enterprises need some access to capital. On the disaster side, let them know that procedures have been improved vastly. I do not think you could get any faster response than the storm hit Satur-

day and the business assistance center opened Monday morning. I want to congratulate the SBA for moving that fast.

Chair LANDRIEU. Thank you. This Committee had a great deal to do with the reforms after Katrina and Rita, because it was such a pitiful and inadequate response initially. So this Committee did a tremendous amount of work and actually passed a reform disaster response bill.

But as has been noted, and as one of the key authors of that, let me be quick to say, that is not enough. We must do more because we need a streamlined approach after catastrophic disasters so that businesses can get back up quickly. This may actually have some bearing on the situation we are in, which is not a natural disaster, but you could say a man-made disaster, a financial collapse disaster, that we are all experiencing now of similar proportion to what we went through with the winds and the waters of these storms. Senator Cardin?

Senator CARDIN. I just wanted to make a brief point in regards to size, because I think this is an issue that this Committee really needs to take a look at. There's so many different definitions for eligibility for government partnerships.

We have been working with the chair on the surety bond issues with small construction companies. When you take a look at the limits that they place on the amount of the surety bond or the revenues that a company has, it really does not work today. So I think it is more than just the number of employees and the eligibility for the major programs within SBA. There is also a lot of other definitional issues that I think are preventing the full potential of economic growth for small companies.

So I think we really do need to take a look at this and I think this point has been well made.

Chair LANDRIEU. Okay, let me throw out another question. Following up on this credit crunch issue and the lack of a secondary market, what about the lack of willingness, which may be quite rational, although it is not helpful, on the part of banks to lend? As Senator Isakson pointed out, where is the bottom? People get very nervous when they can't feel it.

If you have ever swam in a lake or a pool, you always want to know where that bottom is and that is symbolic of what is happening in the economy. People can not feel it, the bottom, and it is very disconcerting.

But given that, would anyone like to comment on the use of credit cards and the rates being charged to the small business, the cost of capital now? As businesses struggle to stay afloat, what are you hearing from your members about the rates? I guess they are paying using credit cards primarily as access to credit? Let me start with you, sir.

Mr. SHARPE. I really can not answer that question directly.

Chair LANDRIEU. Can you speak into the mic?

Mr. SHARPE. But from the veterans' perspective, I am an Iraqi veteran. I was in Baghdad with the Civil Affairs Unit. Our mission was to redo the Iraqi economy. That was one of our primary focuses.

We had a microloan program. We trained Iraqi's how to start their own businesses. We helped them find a business, and we also

helped current Iraqi businesses partner with the large western companies that were coming into the country.

And the fact that the military recognized how important that was to bring stability in that country, a lot of veterans that are here now feel the same thing should happen in this country. SBA should have a direct loan program. In Iraq, the banks were not loaning to the Iraqi companies, so the military did it until we were able to restructure the banking system.

Chair LANDRIEU. You know, Joe, I am so glad you brought that up. Joe, Mr. Sharpe, is mentioning something. I just had the opportunity to actually welcome home the Fourth Mountain Brigade that came back to Fort Polk, which is where they will come back to before they move to the rest of the country.

Interestingly enough, many of the officers spent a good part of that day sharing with me how proud they were of this micro-lending program because it felt like to them that that was the most concrete way that they were able to help. When the Fourth Mountain Brigade got to the east part of Baghdad, which was a very difficult area, and secured it, one of the tools that they felt worked the best was giving small loans; I think it was five—I am not sure of the amount, so I do not want to quote the amounts. They said when they arrived, there there was virtually no market. When they left, there were thousands of stalls and markets reestablished, so I do not want to underestimate the value of this method.

Mr. McCracken, what about credit cards and credit?

Mr. MCCRACKEN. Regarding credit cards, there has been an extraordinary trend for quite awhile of small businesses using credit cards as an important source of credit and capital. We started doing surveys as a small business community almost 20 years ago and found that at that time one in seven companies saw credit cards as an important source of credit and capital for them.

Today it is very nearly half of small companies that use credit cards as an important source of credit and capital and so it is hugely important. We have—but today, we have a system where the credit cards that they use, the terms of those cards can change really at any moment. We have seen people who have seen the terms on their cards go up dramatically. We have seen people who have lost what they thought was a substantial line of credit entirely that they are depending upon.

I mean, credit cards have largely replaced the traditional line of credit that many businesses had over the years as we have seen the consolidation of banks in this country over the last 20 years or so.

Chair LANDRIEU. I am going to call on Ms. Eckerly in a minute, but, would you repeat that statistic—that one out of every seven was normal and now it is one out of every?

Mr. MCCRACKEN. Now it is half.

Chair LANDRIEU. Half. And those rates can fluctuate over night? Lines of credit can be canceled over night?

Mr. MCCRACKEN. And small businesses are in a curious position now because some of the credit cards they use are personal credit cards. Some of the credit cards they use are business credit cards. They do not always themselves know which is which because they

are not really sold to them very differently by the credit card companies.

We have a new rule from the Fed that is going to sort of, in a couple of years at least, put a lid on some of these practices, but it only applies to the personal cards. And so small businesses still are not going to really know which cards some of these packages will apply to and which they won't.

Chair LANDRIEU. Ms. Eckerly.

Ms. ECKERLY. Yes. We actually just did an access to credit poll recently.

Chair LANDRIEU. Please remember to press your buttons.

Mr. ECKERLY. We recently did an access to credit poll and we actually asked some of these questions, what is the biggest change you had? Was it line of credit? Was it reduction in your line of credit? Was it change in your interest rates?

What we had was the most frequent change, 41 percent. This is a survey of 800 small businesses, less than 250 employees, not just our members. The most frequent change was a lower credit limit, 41 percent. Another 35 percent had their interest rate raised and 6 percent had their card canceled. I will be happy to give you this survey.

Chair LANDRIEU. We would like to submit that for the record. Anyone else on this credit card or crunch issue? Go ahead, Mr. Ferreira.

Mr. FERREIRA. Thank you, Chairwoman, for the invitation. Regarding the credit card use, surveys of our members show that only 28 percent of them report that they have no credit card or installment debt. That is generally reflective of lack of access to capital that many of the minority-owned and Hispanic-owned companies generally have.

But those that do report having credit card debt may use a lot of creative language in reporting the relationships that they have with their credit card company and issuing banks. Generally the punitive fees, the administration of them, they consider to be almost borderline predatory.

We would like to very much echo also Mr. Sharpe's comment about the need for direct lending programs given that many of the smallest entrepreneurs are having a very strong problem being able to reach sources of capital right now and when everybody else is leveraging down, the only institution right now, as we can see from the TARP, that can leverage up is the Federal Government.

Obviously we would echo the comments of Mr. Sharpe that a direct lending program would be extremely beneficial. As far as the TARP is concerned, we are not entirely sure what TARP stands for because troubled assets never got purchased and that goes straight to the point of balanced books and Wall Street got balanced. But generally speaking, liquidity down Main Street, especially down Main Street in minority communities throughout the country, has not been addressed.

With that, we would like to also strongly advocate for the need of community investment, a community investment, the use of CDFIs and other institutions by which we try to make direct investment into the communities. We know that small businesses are the ones that generate 60 to 80 percent of the new jobs and those

underserved communities are left out very frequently for many of— participation in many of these programs.

Chair LANDRIEU. I am going to call on Ms. Eckerly to add something representing the National Federation of Independent Businesses on this subject, and then I would like to move to the issue of tax cuts or tax relief, if we could.

Ms. ECKERLY. One of the other things our access to credit poll found was how heavily—and it is not surprising—small business owners are using their—the reduction of real estate values has really killed them because they are so heavily mortgaged, their first, second or third mortgage. So one of the reasons lines of credit are getting cut is because their real estate valuations have declined. I just wanted to add that.

Chair LANDRIEU. So you can really see the circle of this effect very clearly with businesses or entrepreneurs sometimes using equity in their home to finance the startup of their business, or using a combination of home equity and credit card lines to get started, hoping that sometime soon a bank might step in.

When you have values decreasing so rapidly in your home, credit card companies raising your interest rate, and banks even more reluctant to step in and help you, you understand why we really are in an extremely, extremely tough situation and unprecedented.

On that note, I would want to make a point that I hope will get picked up in our response. I do not know where it is coming from when I hear either from the Administration or sometimes from Congress that we do not want to think about new programs and new starts. This is me speaking, not this Committee.

I do not think we are going to get out of where we are unless we think about new approaches, new ideas and new programs, because I am not sure that we have the patterns on the books to merely rely on the old programs that already exist. I think we must be much more open to some new thinking, and that is hopefully what this roundtable will help spur.

Can I throw out, unless my other members have anything, a question on tax policy? We are not a tax writing Committee, but under my chairmanship, we want to be a tax cut or tax policy advising Committee to the Finance Committee that has ultimate jurisdiction in the Senate.

This Committee has in the past, and I am going to continue that tradition, been a strong advocate of small business tax issues, from reform of healthcare, which is a very difficult issue for small business, to general tax policy that needs to be changed or modified.

In the Senate markup on finance—several of our members serve on the Finance Committee—the loss carry-back provision has been included. The small expensing provision has been included, bonus depreciation, small business capital gains, expansion of the work opportunity tax credit, and new market tax credits. Would any of you like to comment on any of these, or additional tax provisions, that you either find helpful or things that you would like to suggest that are not in here that perhaps should be as we consider this tax portion on the floor of the Senate?

I will start with you Mr. McCracken and then go to Susan and then Ms. Sullivan.

Mr. MCCracken. Thank you very much. We are pretty supportive of the things that are in the package but think there are some things that would be even more helpful if they were included in the package.

I would like to preface just briefly with, one of the things we have to remember when we are thinking about jobs and the creation of jobs through small companies is not just the existing businesses being able to expand, although that is extremely important. We also have to remember the dynamism that is the small business community where businesses are constantly starting and dying and merging and there is this constant motion in the small business community and a lot of the job growth comes from new business startups.

We all have to be thinking about how we are creating an environment where new businesses want to start. And usually when we come out of a recession like this, small businesses are the ones that lead us out. A lot of people who got laid off from big companies see this as well, I am going to take these lemons and make lemonade and go out and start that business I have been thinking about for years.

They do that by getting a second mortgage on their house, by taking some money out of their 401k plan, by relying on credit cards. For the reasons we all know and discussed today, those three options are extremely limited to people right now and they may be non-existent.

The other consideration that people have when they are thinking about starting a business is where am I going to get my health insurance? I just want to raise specifically to that point, the self-employment tax on health insurance. We have had occasion in the last month to learn a lot about the self-employment tax nationally recently and many folks do not realize that small business owners, self-employed people, are the only workers in the economy that do not get to deduct the cost of their health insurance against their self-employment tax, that is, their FICA tax, and they pay both halves of the FICA tax, 15 percent.

If they work for somebody else or they are the CEO of a C Corporation, every last dime of the health insurance, whether they paid it or the company paid it, is exempt from FICA tax on both halves. But that is not true for the self-employed.

It strikes us that you could help access to health care, help encourage people to be able to afford to start a business by being able to afford healthcare. Make the tax system more equitable and put money in the pocket of the self-employed by the simple thing that everybody else already has.

Chair LANDRIEU. Do we have a score for that? Has that been considered before?

Mr. MCCracken. About \$20 billion for 10 years.

Chair LANDRIEU. Twenty billion over 10 years?

Mr. MCCracken. Well that score is a little bit old, but that is what it was.

Chair LANDRIEU. Okay, Ms. Sullivan and then Ms. Eckerly.

Ms. SULLIVAN. We appreciate all the tax breaks that are included in the stimulus package. The feedback we get is helpful, but we are going to hang onto the money. It is not really going to stimulate

anything really. But there is one thing that I think we may have overlooked that might help stimulate some additional investment in small business and that is giving the angel investors an incentive to invest in small businesses.

If we could give them a tax break, I think that might be another source where they are going to free up a little more capital. Some experts say that companies seeking angel investment typically need between \$25,000 and \$500,000 and approximately 15.1 percent of new business founders surveyed in an entrepreneurial assessment say they need between 25,000 and 500,000 from an external source.

So we would encourage you to think about giving angel investors, who are an important piece of this, additional tax incentives.

Chair LANDRIEU. Mr. Alford. Well, Ms. Eckerly and then Mr. Alford.

Ms. ECKERLY. I totally agree with what Todd said about the self-employed tax deduction. But even more, what he brought up with the score of \$20 billion over 10 years underscores to me how—granted, that \$20 billion is not a small amount of money. When you look at the size of the overall stimulus package and how much is geared to small business, that is to me chump change.

That is why we argued for a payroll tax holiday, because there is no money coming into small business right now. Either the employees do not have money, or neither does the employer, and a payroll tax holiday only on the FICA would give substantial relief to both.

Beyond that, Todd brought up startups. How about increasing the startup deduction? It is currently \$5,000 if you start a business. Increase it to 20. That is another idea that would help. Beyond that, we agree with the expensing, but it is only one year expensing in the Senate package. How about making it two years? The net operating loss is only one year. How about making it five years?

Chair LANDRIEU. Mr. Alford.

Mr. ALFORD. Madam Chair, taking off from what Mr. Hernandez says about creative ways in New Orleans. One creative way in New Orleans in terms of surety bonds, Senator Cardin, we brought agents from Boston and New Jersey to write bonds for businesses in New Orleans. The waste removal contract in the French Quarter was bonded by a Boston agent. That woke up the local bonding community in New Orleans and they are on board now.

In terms of financing, we got Alaska native corporations, who are cash rich, billion dollar companies, but still are in the 8(a) program, to joint venture on Corps of Engineer projects. They brought the money. We found the contracts, worked with the Corps. They brought the money. So there are some creative ways.

New market tax credits are good as long as they are not used to gentrify urban communities, such as the south side of Chicago or East Cleveland. It is good for the community if the residents are not transplanted. Here in Washington, D.C., in the Shaw District, when I came to D.C., D.C. was 80 percent black. Today it is 55 percent black. What happened to those people? They are in Prince George's County.

Mr. Adams' property values are getting hurt by that. They are being pushed out. So I do not think new market tax credits, the intent was to transplant people of ill means and replace them with people of good means.

Chair LANDRIEU. Who else? Go ahead. I am sorry.

Mr. CORATOLO. Tax cuts go hand in hand with access to capital as far as stimulating the economy and invigorating the small business community and certainly we commend you or commend the Senate on their approach over the House's approach.

Tax cuts have to be robust, timely, temporary and properly targeted in order to have immediate effect and immediate stimulus. I certainly agree with my colleagues on different approaches and other things that can be added. One thing that I will point out is cancellation of indebtedness. I commend the Senate for having that in the Senate package. It certainly could go further.

Another thing is the 3 percent repeal on Government contracting withholding. The House version has a complete repeal. The Senate has a one-year delay. This is very onerous to small businesses. It should be repealed completely based on the fact that we are going to have millions of—or billions of dollars going into rebuilding America.

The amount of money that is put into infrastructure which the Chamber endorses is important. We cannot have the Government withholding 3 percent of that money or that operating cash going from small businesses. It puts them in a very uncompetitive position. So I would encourage you to have a full repeal of the 3 percent withholding on Government contracts.

Chair LANDRIEU. Would anybody else like to comment on this withholding provision?

Mr. Ferreira.

Mr. FERREIRA. Unfortunately I am going to have to excuse myself very shortly, so I just want to leave the Senators and you Chair Landrieu a couple of minor comments.

Chair LANDRIEU. Is your mic on? Can you pull it a little closer to you? Just pull it. It will move.

Mr. FERREIRA. Yes, Chairwoman. Can you hear me now?

Chair LANDRIEU. Yes.

Mr. FERREIRA. There we go. Good. A few final comments before I unfortunately have to excuse myself, which is that very much to echo Mr. Hernandez's comments earlier about the black hole that exists for mid-size companies and the larger of the smalls in this country and the means by which to be able to invest in them.

You go to B of A, they tell you to go to SBA and then SBA sends you right back. Diversity in contracting, another very important issue for us. The 107(a) provision and the Emergency Economic Stabilization Act, the bailout essentially gave first time a big waiver from any diversity in contracting for women-owned businesses and minority-owned businesses, and yet a single minority business is yet to get a single contract for administration of TARP activities.

We would very much be hesitant to support any types of investments in economic recovery that take any similar approaches. And if anything, we would like to urge the opposite to make sure that we invest in minority communities and underserved communities

and women-owned businesses by having strong diversity language in the bill.

And the last is, I want to also stress that neither the House or the Senate bills should contain any E-verify requirements which are very much unfortunately onerous and incredibly—Senator Grassley we understand has filed an amendment for the Senate bill which would require the use of E-verify for any public or private entity that receives monies from the economic stimulus or even that receives a tax benefit, uses a tax benefit.

That is essentially a nationwide implementation of an experimental database program that does not work and will put 1 percent of all workers that go through it in the unemployment line. So we should not be actually using the economic stimulus bill as a means to put people out of work.

And with that, thank you very much.

Chair LANDRIEU. Okay, Mr. Hernandez and then Mr. Alford. If any of you want to speak, please just turn your card vertically.

Mr. HERNANDEZ. It took me a minute to figure that out. You know, at the end of the day as a small business owner, the reality is, that which puts cash in the bank for us stimulates us. Tax cuts are great and we certainly appreciate those. They do not cause us to go out and hire more people however.

I think at the end of the day, this is about putting people to work and supporting communities and helping communities to sustain quality of life. To do that, you need cash money to drive that process.

Certainly depreciation mechanisms that are in place are helpful to us because they are good financing tools for us. So those things will work.

New market tax credit program. I think the underlying principle of the program is a phenomenal principle. But in practicality, it is not as easy to navigate as we may have intended. As a business owner that uses new market tax credits, I can tell you that they can be very expensive to close in a financing package. They can be very complicated to close in a financing package.

It takes more lawyers to close a new market tax credit deal than I think I have ever seen before. And then lastly, what we have found in the new market tax credit realm is that those who are getting the allocations are not necessarily using them as a real financing tool for small businesses. They are really using them kind of as loan dollars and they are following typical bank loan procedures in order to get those monies out into the community.

A lot of small businesses struggle with trying to close new market tax credit deals. So I would ask the Committee to take a look at streamlining the new market tax credit closing process, the cost of using the tax credits, and then put in place a true accountability system to measure where those monies are going and whether they are actually having the impact that the program actually intended.

Chair LANDRIEU. Thank you. Going back to what Mr. Sharpe said, let me mention one part of the stimulus that this Committee can take some credit for. At our request, the package includes \$51 million for micro loans, a substantial increase if the package goes through as the Senate version, and we can fine tune it.

I would like you all to review that particular provision and make comments either verbally or in writing to this Committee, and we are proud to have advocated for that.

I think I know the answer to this question, but I am going to ask it anyway because I think it is important to get some strong, clear comments on the record. The first round of TARP was \$350 billion. There has been a lot of criticism. As you know, Senator Cardin started his remarks saying how unhappy his constituents are. I hear that, of course, from my constituents as well.

So we know what is wrong and what did not work. What we would like to hear from you more specifically is what do you think might work in the next round as President Obama leads this next round? Do you have any specific recommendations to the Administration or to Congress about what provisions could be included in the finance provision that might help your small businesses and actually reach Main Street?

We will start with you, Mr. Alford.

Mr. ALFORD. Madam Chair, let's reinstate the FAR, the Federal Acquisitions Regulations, which has small business, minority business provisions. When that was waived, I smelled a rat and I knew what was going to go down. We did not support the bailout, the TARP.

We do support the stimulus plan totally and in writing, but I believe the U.S. Chamber, and the Hispanic Chamber would join with my Chamber, to ask your Committee to get a report from Treasury on small business utilization stipulating minority women-owned businesses as well.

I believe it is going to be a zero, but if you can get that report, we would really love to have it.

Chair LANDRIEU. Yes, Senator Cardin.

Senator CARDIN. I agree with your point completely. Look, we need to pass an economic stabilization plan and I am hopeful that we will get it done within the next two weeks. I intend and hope I will be strongly supporting that.

But I do have concern with the same point you raised on the TARP money, whether the procurement dollars that are being made available will be utilized in a way that is in the best interest of our company in a fair way. We have set aside programs for minority businesses and for small businesses and we have known of the abuses in these programs with bundling and with prime contractor abuses.

This Committee has had hearings on it and it is well documented. The concerns that are always expressed is that when you have a stable pie on procurement it is difficult to break into the arrangements between the agencies and the prime contractors.

Well now we have a larger pie, so this should be an opportunity to really reach out and to make sure that the Federal procurement's done in a fair way, in a way that is going to help this nation grow.

I think your point about making sure we have accounting as to how these funds are used and reports as to how well we are complying with these programs is very well placed. I do have concern as to whether the dollars will get fairly down on procurement to

small, minority businesses, women-owned businesses in a manner consistent with the intent of Federal law.

Chair LANDRIEU. Go ahead, Mr. Alford.

Mr. ALFORD. If I may say too, some of my accounting firms, members of the Chamber, came with a complaint that they could not get into their door. And we tracked Bank of New York Mellon, where did their accounting contracts go to? They outsourced them. They went to India. They went to India, sir, and the Secretary of Treasury gave them a waiver, a written waiver to do that.

Senator CARDIN. We are going to be watching that very closely and there is language in this bill that has gotten some concern internationally to make sure—we are about creating jobs here in America. That is what this economic stabilization plan is about. So we are going to follow up on that to make sure that these contracts are left here in the United States.

Chair LANDRIEU. Mr. Coratolo.

Mr. CORATOLO. You had mentioned the TARP. A few weeks ago, I guess, the Treasury—

Chair LANDRIEU. Speak into the mic if you could, please.

Mr. CORATOLO. I am sorry. You had mentioned the TARP. A few weeks ago the Treasury had initiated a new program called the TALF, which supposedly stands for the Term Asset-Backed Securities Loan Facility, where they were going to set up a loan facility which would buy some of the SBA and student loans and actually credit card assets that were out there that were clogging up the secondary markets.

I think this is important. I think it is important to follow through to make sure they do not take a U-turn on this. You asked before how much we are clogging up the secondary markets. I know there is \$4 billion clogging up the 7(a) secondary markets that really need to be liquefied in order for banks to have any shot at creating a steady flow of access to capital.

So I think whether it is that particular program or another secondary market program, we really have to be judicious in looking at how this works for creating a good flow for small business.

Chair LANDRIEU. Good point.

Ms. Sullivan.

Ms. SULLIVAN. There are really two parts of TARP. One is, as Senator Cardin mentioned, the procurement part of it, which is using small businesses to process loans and all the—there are a lot of small businesses in that arena.

So when it first was passed, we eagerly called Treasury and said women businesses are here to help and they said, we have made a decision really not to work with outside groups. You will need to go talk to the prime. So that was that.

There is section 107 in the original law that said they should work with minority and women-owned and small businesses, so I guess we would advocate for Congress to ask a lot of Congress about how that is being implemented.

The second part is just how—the question that the Chair asked about the TARP program itself and how to trickle that down to Main Street. There is a Congressional oversight panel that is churning out reports kind of like baking cakes and the second one said that there really needs to be metrics put in place to be able

to measure this, something that has not been done. We just want to echo that in order for that to come to Main Street, there have got to be some metrics put into place.

Chair LANDRIEU. Mr. Sharpe.

Mr. SHARPE. The second largest complaint that we receive on a daily basis, of course, is the procurement situation. You know, we talk about new programs, but we already have laws on the books that have not been enforced. One is 106–50, the 3 percent procurement goal.

It appears from our constituents that there is an inherent bias of working with not only small companies, but with veteran-owned companies. It appears that they would rather prefer to work with the larger companies. There seems to be some sort of connection already there that is cutting the veteran businesses out.

You mentioned about India. We have some veteran-owned company owners right now working in Afghanistan and, of course, Iraq who are tired of trying to find contracts with American companies because they see a lot of these contracts going to foreign companies. So they are learning to work with foreign companies to get some piece of the pie there because they can not seem to do it here.

So with the stimulus package, we understand that there is a part of it that is going to be massive funding for a lot of VA medical centers and a lot of military bases. Veterans of course, want to make sure that they are part of that.

Again, we already have laws on the books. We just need SBA to really monitor and enforce what is—which is already there.

As far as the direct loan program, it is my understanding that SBA already has that ability, that there is some regulation that allows them to do that. All they have to do is actually follow through on it.

Chair LANDRIEU. Well it reminds me, as Mr. Sharpe mentioned, about the difficulty of veterans who are on the front lines. We say we honor them and take a lot of pictures, but when it comes to budgets, and making sure they are at the front of the line for benefits, sometimes they are not there.

It reminds me. Right after one of our hurricanes, George—we have had so many, I am not able to keep up with them. But, after one, we had a terrible disaster around the St. Bernard area, and the lower ninth ward in New Orleans and our military base were devastated.

The small businesses in that community had an impossible—it was impossible for them to get the contracts to help rebuild that base. People from the outside came in while the businesses that were directly impacted—hardware stores, supply stores, paint stores, electricians in the neighborhood—could not access the contract jobs.

So we have had first-hand experience with contracting dilemmas, and this Committee would like to focus on that.

Mr. McCracken.

Mr. MCCracken. One of the recent, I guess, bright spots in TARP is when it was initially enacted, there was no so-called term sheet for S Corporations that happen to be banks to participate and that is something like a third, I think, of banks in the country, and

they tend to be the smaller community banks that do a great deal of small business lending.

So they were not even eligible to participate in the TARP. That has just recently been changed, so going forward, they should be able to participate in the TARP. We are somewhat cautiously hopeful that will begin to help.

Chair LANDRIEU. Thank you for mentioning that. This Committee has been really reaching out to our community banks nationally. We want to hear from them. We have been reaching out, not just to the Louisiana banks and Maryland banks, but to banks in all of the states through their national and regional organizations. We want them to be a big part of the solution because they have been a big basis of support for capital in the country. Please continue.

Mr. MCCracken. But then going forward, we also think there should be some target for banks that receive TARP monies for their small business lending. Obviously it will probably need to be a little bit different by bank because different banks have different specialties in the way they lend. There is a great diversity of banks.

But we nevertheless think there should be a target for a bank that is receiving TARP monies and a clear mechanism for follow-up to subtract the loans that they have been making and were making following the TARP. So they know someone's watching them. I think accountability and oversight at least should be part of that.

Chair LANDRIEU. I have got one more general question as we begin to wrap up the roundtable, and then I am going to ask for final comments from you all if you feel like we have not covered an area.

We have talked about the tax provisions. We have talked about the SBA programs. We have talked about contracting, micro-lending, the definitions of businesses that may need to be reviewed.

My last question has to do with the actual stimulative part of the bill relative to construction and infrastructure, which is widely supported among Democrats and Republicans. There is, of course, some disagreement as to the level of that investment and the targets.

I think most Americans understand that one good way to put people to work is for the government to invest in building highways, rail, transportation, and broadband. I think President Obama's call to make these investments sturdy, bold and real, and also transformative, is also catching the imagination of Americans who would like to see us spending that money wisely, laying a foundation for a brighter future—whether it is in Mr. Hernandez's energy efficiency, or new technologies for communication that will make America more competitive.

So my final question to the panel is: How are your small businesses focused on this particular infrastructure portion? We talked a little bit about the set asides. We have talked some about the surety bonds. But on the construction side itself, how do we make sure that small businesses, minority-owned, small, women-owned businesses, and the general small business community, can help build these roads, build these levies, restore our parks, lay this fiber, and create the green jobs of the future?

Why don't we start with you, Mr. Adams?

Mr. ADAMS. I believe it goes back to something we talked about a little earlier and I think Senator Cardin talked on that a little bit. But first, I think we have to have a strong SBA. We talked about the size of SBA. To service all of these small businesses that look to participate in this infrastructure development, we have to have the manpower and the personnel at SBA to facilitate that.

So a part of that is we have to strengthen SBA. I think for those to participate, we also have to go back to I think what Senator Cardin and others have talked about, actually increase the level of the surety bonding. We talk about numbers in general, but we need to go for maybe 2 to 10 million.

We keep hearing we have to develop capacity, you have to develop capacity. Well to do that, one has to have the opportunity to perform on larger and larger jobs. Increasing the surety bond levels will afford that opportunity.

Along that same line, the SBA loans need to be increased. I think currently the level is \$2.5 million. That needs to go to \$5 or \$10 million, as these businesses participate in some of the costs from a construction standpoint, to be able to do that as well.

I still have to go back and talk a little about the mid-tier businesses along these lines as well. We still need to cultivate and do everything we can for the smaller businesses, increasing the loans, the surety, but we also have to make sure we understand that there is an economic crunch when we talk about access to capital for the mid-tiers.

We were at a recent conference at the U.S. Chamber of Commerce where one of the staffers from the Hill even commented that those going into mid-tier businesses, they referred to it as going into the Valley of Death, and that is a quote from that day. So I think we need to understand that there has to be something to assist him to be able to participate even as we grow with the SBA.

One recommendation I would like to suggest is possibly, we always go back and forth about the NAICS, the size standards, the whole bit, the codes. I think one thing that could help a lot of businesses also to participate in the construction and the infrastructure development is to freeze businesses and allow them to maintain their NAICS code size standards from 2008 for the next three years as we implement the economic recovery bill.

Chair LANDRIEU. Ms. Eckerly and then Mr. Alford.

Ms. ECKERLY. I think one of the frustrations we hear from our members, we heard it about TARP and then we are hearing it about this stimulus package, is where all this money is going. Particularly with I think what we hear on the construction and the infrastructure portion is to make sure—I hate to use the—it is a cliché now—but that they do not go to bridges to nowhere, that the money is used in a constructive fashion. So to the extent that during consideration of the stimulus this is paid attention to, that would be a good thing.

The other thing is when you think of a lot of small businesses, if they are going to get some of this money, frankly and particularly in your part of the country, are not unionized. It is unrealistic to ask, for example, that Davis-Bacon requirements get lifted. But this makes it tougher for small businesses to compete for these con-

tracts if the red tape associated with them excludes a construction firm with less than 10 employees, for instance.

So I think that is something else that our members would say needs to be paid attention to.

Chair LANDRIEU. Let me get Ms. Littlejohn and then you, Mr. Alford, because she has not spoken as much as the others.

Ms. LITTLEJOHN. I wanted to speak to your issues about jobs of the future being created. I think that instead of just normal highways, the concept of smart highways and some of the things that can utilize technology, the broadband piece, I think, is absolutely critical.

I mentioned I have been living overseas most of the last five years. You go to South Korea and their broadband is—I mean, it makes everything we have in this country look like we are in the horse and buggy era. I think that is going to be a huge aspect of how businesses and jobs are created in the future.

I think that absolutely has to be a very, very high priority. The broadband piece as well as rural access, I know there are budgetary issues, but that is critical. And then energy efficiency, I personally feel that with how we squander resources with poor heating and houses with everything going through the roofs in the cold climates, our use of air conditioning, we need to look at renewable energy. I think that is just critical.

We need to look at retrofitting housing. I think many people in construction can move into some of those kinds of jobs. But we really have to look at it in a transformational way, I think.

Chair LANDRIEU. Well, there is a provision in part of the bill for weatherization programs that could have an immediate opportunity for businesses in that sector to step up the kind of weatherization for homes and businesses. In the long-term, those homeowners and businesses will reap the rewards of lower electricity.

I am not sure that we sized it properly. It probably needs some work, but that is a part of the stimulus as it came out of the appropriations Committee.

Mr. Alford.

Mr. ALFORD. Yes, Madam Chair. The President has commitments to unions, but in construction, if we have project labor agreements on some of these projects, it is going to decrease minority contracting 60 percent. It will decrease minority worker participation by 75 percent.

Unions do not hire minorities and minority companies do not belong to unions. So it is rather unrealistic if we try to blanket this with a project labor agreement. We will have to go to court because it is wholesale discrimination.

Also, if we get direction from the top, that makes a lot of difference. We were getting wiped out, blocked out from the Gulf rebuilding and at a White House meeting, I asked the President to tell Riley Bechtel, who was there, and the CEO of Shaw, who was there, to open their doors to our members. And he said they will do it and they nodded. And that was all it took.

Now we are participating in New Orleans. It is a model program for the nation because it was a word spoken from the top.

Chair LANDRIEU. Mr. Coratolo.

Mr. CORATOLO. Madam Chair, certainly the Chamber endorses infrastructure spending. It is going to be key to putting people back to work.

A couple of related thoughts on that is, when small businesses participate, their being paid on a timely basis is always an issue. I do not know that we can do anything other than maybe change some of the laws or maybe even from the pulpit of where you sit, encourage that payment. Because access to capital, that is another form of access to capital, is getting paid properly.

Right now after 12 months, the government does not pay interest on any outstanding debts. Maybe we could extend that. Maybe we can encourage the government to pay more quickly rather than the 30 days.

Another related issue, I know when we talk about infrastructure, we are talking about our energy infrastructure, our technologies, our energy security, so it goes beyond just roads and bridges. Part of the purview of this Committee here is SBIR and STTR. I think it is an imperative that we have a reauthorization and one, based on the compromise that you, in fact, you were part of last year. I think it is really needed to put forth a new foot forward to have small businesses participate in the R&D that will be the basis for our future.

So even though that may not be stimulative, it is not a cost factor. It is something that we have to get in place so that we know that those R&D dollars are coming to small businesses such they can patent ideas that will be part of this new economy and this new energy economy.

Chair LANDRIEU. Mr. Sharpe and Mr. Hernandez, you all will have the last word, and then I will do a closing statement.

Mr. SHARPE. I would like to end with saying that everyone in this room, we are all concerned with the state of small businesses. We feel that the small business is what is going to keep the economy growing, but for the veteran living outside the Beltway, they do not believe at this point in time that the Federal Government or the Administration really believes the importance of small businesses.

Some sort of strong signal has to be sent that we are serious about helping the small business community. One way you can do that is to—I really believe that you should have someone in the cabinet, you know, SBA should be on a cabinet-level position.

Chair LANDRIEU. Well I know you all are going to think I planted that question, that comment, but I did not. My staff just reminded me to announce that just today Senator Snowe and I sent a letter to the President asking him to do exactly that, to send a positive signal to the country that the small business Administrator would be elevate the SBA Administrator to a cabinet level.

I think given the challenges before the nation and the fact that small business will be in large measure the engine that drives us out of this ditch and forward, that it would be very positive and powerful, not just symbolically, but substantively, to have the agenda of small business, whether it is in the tax provisions or the stimulus provisions or the investment provisions or in the regulatory provisions or the financial, to have that voice right there at the table.

So we will see. I think the Administration is contemplating its action. Mr. Hernandez, you actually get the last word here.

Mr. HERNANDEZ. I wish I could get that same privilege at home. [Laughter.]

You know, I just want to jump on the bandwagon. I actually had written down in my notes to emphasize that. I thought that there needed to be a cabinet-level position so that someone could focus on making sure that small businesses are participating in the flow of the stimulus monies.

One of the issues that we have in New Orleans outside of the TARP package is that there are lots of Federal dollars that are focused on New Orleans infrastructure redevelopment. A lot has been said about those dollars flowing and a lot has been done about getting small businesses included, but the dollars have not flowed yet.

One of the things that this Committee can truly help us do is make sure those monies begin the flow so that ultimately the small businesses can begin to participate. If someone at a cabinet-level position can have the responsibility of forcing those people who are handling the dollars to account for where those dollars go specifically, show us at the end of the day how small businesses have benefitted in any way, then we can start to appreciate where the small business are actually getting a piece of the pie.

So we think accountability and having someone monitor that is going to be kind of the most important component of making sure small businesses get to play.

Chair LANDRIEU. I am pleased to say in conclusion that I was able to put a provision in the appropriations mark just the other day to hopefully expedite about \$1.5 billion of projects that are stymied. There is nothing right now in the law provision to settle disputes between local communities and FEMA—cities like Lake Charles, for instance, or Calcasieu, or Cameron Parish where Mr. Swift is from, or the New Orleans area, or St. Bernard.

It is just an ongoing disagreement as to how much the fire station costs to rebuild. The fire chief says it costs \$100. FEMA says it costs \$50, and that continues for four and half years after the storm. So the provision that I put in the appropriations mark says that within 90 days, there has got to be almost like binding arbitration, or some final decision, that says this fire station costs \$75, that is it, let's build it.

Because we need to start building in some of these devastated areas. I know this is not true of the whole country, but we have devastation in California right now, and we in Iowa from the floods, not just the Gulf Coast, though there is the storm that hit the Texas border.

I want to end by saying to Senator Cardin, I will most certainly take your concerns about the surety bond piece. We will raise that issue to the Senate leadership. I thank all of you for your participation. I think we had some excellent ideas and suggestions and comments.

Again, this Committee, under my chairmanship and with the good work of my colleague Senator Snowe, will continue to be a strong voice for the needs and the potential of small business in this country.

God bless you all. Thank you so much for participating.

[Applause.]

[Whereupon, at 10:41 a.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

Postanowicz, Lena (SBC)

From: Ripchensky, Darla (SBC)
Sent: Sunday, January 27, 2013 10:10 AM
To: Wheeler, Kevin (SBC)
Subject: Emailing: NFIB The Voice of Small Business - National Small Business Poll

Kevin, I believe this is what you asked me to send to you for the 1/29/2009 roundtable transcript?
Thanks, Darla



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Credit Access

- [Executive Summary](#)
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- [Data Collection Methods](#)
- [Demographics](#)

One-third (34%) of small business owners, defined as small employers having 250 or fewer employees, think the nation's financial problems have "significantly" affected their business and one-quarter (26%) think it threatens their survival. However, 45 percent designate slow or lost sales as their principal immediate problem, followed by the unpredictability of business conditions (23%), falling real estate values (9%) and only then an inability to obtain credit, tight credit drawing virtually the same number of cites as the real estate value issue.

â€ Since the beginning of early September, 30 percent of small employers applied for credit in one form or another, at least half of which applied more than one time. Seventy (70) percent did not apply of which 12 percent, or 8 percent of the population, did not apply because they thought they could not get credit they wanted.

â€ Forty-one (41) percent of small employers applying since early September obtained all the credit they wanted, while 8 percent obtained most of it. However, 14 percent obtained just some of the credit they wanted and 34 percent obtained none of it.

â€ The ability to obtain credit appears statistically related to financial strength, as measured by greater sales growth in the last two years, fewer mortgages taken out to finance other business activity, fewer upside-down properties, as well as the ownerâ€™s positive evaluation of firm performance against the competition, and firm maturity, more specifically, years of operation. Discouraged borrowers, that is, owners who do not attempt to borrow for fear of rejection, are statistically related to what appears to be weak balance sheets, specifically, falling real sales over the last two years, ownership of more upside-down properties, lesser use of real estate for collateral, more mortgages taken out to finance other business activity, and the ownerâ€™s negative evaluation of firm performance against the competition.

â€ Financial institutions changed the terms or conditions of a loan, line or credit card for 18 percent of small employers. (This figure is somewhat low because only the largest line of credit and the most important credit card used for business were evaluated.) Most of the changes would be termed negative, such as a lower limit on a credit card or higher interest on a line of credit, though not all changes, particularly with respect to lines, were adverse. About four in 10 report the changes as harmful to the business while the other six claim the changes either had no impact or were more irritating than harmful.

â€ Trade credit is growing more difficult to procure. Of the 80 percent who use trade credit, 30 percentage points think it has been getting tighter since early September, 14 percentage points a lot tighter, while 46 percentage points see no change.

â€ Small business owners are heavily invested in real estate. Ninety-six (96) percent own their personal residence, 49 percent own all or part of the building and/or land on which their business sits (excluding the one-quarter who operate primarily from the home), and 41 percent own investment real estate, excluding their residence and business.

â€ Real estate, particularly home mortgages, is frequently used to finance or collateralize other business assets. Seventy-six (76) percent have at least one mortgage on the real estate they own with 13 percent having three or more mortgages, 22 percent having taken out at least one mortgage to finance business activities. Sixteen (16) percent use real estate to collateralize other business assets, including 10 percent who use their homes as collateral. About one in 10 (9%) own at least one currently upside-down property. The financial leverage homes provide businesses in a weak economy with declining real estate values is a matter of concern.



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William J. Dennis, Jr.
NFIB Research Foundation

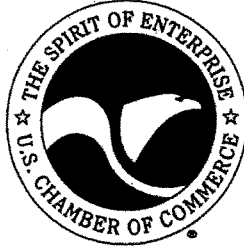
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Statement of the U.S. Chamber of Commerce

ON: "INVESTING IN SMALL BUSINESS: JUMPSTARTING
THE ENGINES OF OUR ECONOMY"

TO: THE SENATE SMALL BUSINESS AND
ENTREPRENEURSHIP COMMITTEE ROUNDTABLE

BY: GIOVANNI CORATOLO, EXECUTIVE DIRECTOR,
SMALL AND EMERGING MARKET BUSINESS
COUNCILS, U.S. CHAMBER OF COMMERCE

DATE: JANUARY 29, 2009

The Chamber's mission is to advance human progress through an economic,
political and social system based on individual freedom,
incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business -- manufacturing, retailing, services, construction, wholesaling, and finance -- is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 105 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Statement on
“Investing in Small Business: Jump Starting the Engines of our Economy”
 Before the
**THE SENATE SMALL BUSINESS AND ENTREPRENEURSHIP
 COMMITTEE**
 By
Giovanni Coratolo
Executive Director, Small and Emerging Market Business Councils
U.S. CHAMBER OF COMMERCE
January 29, 2009

Chairwoman Landrieu, Ranking Member Snowe and distinguished members of the Committee, the Chamber thanks you for accepting our statement for the record. Chairwoman Landrieu, I also congratulate you on your recent appointment as Chair of this committee. The Chamber looks forward to working with you on issues important to our small business membership. We also commend your efforts in having this important roundtable to further understand the state of small business during the economic downturn and policies that will help promote small businesses as we move forward.

I am Giovanni Coratolo, the executive director for the small and emerging market business councils for the U.S. Chamber of Commerce. These two councils represent the primary policy making bodies for the Chamber's small and emerging market businesses.

The State of Small Business

We are clearly in very trying economic times. With the unwinding of the housing market, a severe liquidity crisis, and the general deleveraging of the financial markets, the economic downturn is severe and widespread. Furthermore, the weakened economy threatens to slow even further, making credit even less accessible to Main Street businesses.

As a result of the recession in this country and the world-wide economic slowdown, many small business owners are reporting to us that they are struggling to stay in business. Not surprisingly, in recent surveys to our members, we are hearing that the economy is the number one issue that is affecting their businesses. As a result, we are seeing many small businesses in full survival mode, making defensive decisions operationally in an attempt to protect assets and whether the economic storm. The following testimonial from Vanessa Baugh is consistent with some of the challenges facing small business in this economic environment:

Vanessa Baugh
Vanessa Fine Jewelry
Lakewood Ranch, Florida

“The credit crunch on small business is not new just getting worse. I have had my line of credit reduced to the point that I have no way of cash influx in my business. Should I mention that my line of credit was through Wachovia. Now my business has been reduced to the point that we are 60% down from last year. The summer months in Florida are always the slowest, however, to be down 70% for the months of July, August and September from the same months last year with no cash influx has made it near impossible to buy inventory to get ready for any sort of Christmas season. People are not spending money because they are scared or have been laid off from their jobs. On top of that, cost of goods have sky rocketed. For the first time in my 10 years in business, I am wondering if we will have to close or file bankruptcy.”

Small Business Expectations

With the economy a high priority, small business owners are looking for Congress and the new Administration to take legislative action which is robust, timely, temporary, and properly targeted to jump start the economy, restore liquidity, and preserve and create jobs. Mindful of this, the Chamber has reached out to the business community through many different channels to try to better understand specific policies businesses would like to see enacted that would provide them the tools necessary to help increase economic activity.

In a limited survey to the Chamber’s Council on Small Business which comprises one hundred of the Chamber’s most active small business owners, 45.2% responded that “Access to Capital for Small Business” should be the highest priority for small business in an economic stimulus package. 29% indicated small business tax incentives should be the highest priority.

More persuasive is a comprehensive national online survey that went out to thousands of “Friends of the Chamber” which comprise both Chamber members and non-members we asked the following question with the following results to date¹:

“Which of the following principles do you support most to get our economy moving again?”

- Providing meaningful tax relief for large and small employers and incentives for Americans to invest their hard earned dollars. (38%)
- Reducing borrower and lending fees through the Small Business Administration to open up credit markets and provide immediate relief to our country’s small businesses. (33%)
- Creating new jobs through targeted infrastructure funding. (20%)
- Supplying tax credits to the housing industry to provide immediate assistance to America’s homeowners. (9%)

It is clear from the survey results that access to capital reforms for small business through SBA lending programs coupled with meaningful tax relief for all business should be essential components of any stimulus package.

Meaningful Tax Relief for Small Business - Stimulus I

¹ See attachment number 1

In February 2008, Congress approved and the President signed the Economic Stimulus Act of 2008, a \$168 billion package to help the flagging U.S. economy. This stimulus bill focused primarily on increasing consumption and investment. The bill provided a tax rebate to individual taxpayers with the goal of increasing consumption; another key component of the legislation was encouraging businesses to make investments through tax incentives. This was achieved by increasing the Section 179 expensing limit to \$250,000 and providing 50 percent bonus depreciation for capital investments made in 2008.

The following stories are from several Chamber members that took advantage of the first stimulus bill and made purchases as a result of the tax incentives provided by the stimulus package in 2008 rather than waiting until a future date. These stories of utilizing the tax incentives provided by the first economic stimulus bill are just a few examples that represent thousands of similar actions taken by small businesses throughout the United States to invest in their companies, expand operations, and create jobs.

1. Educational Options, Inc.

Thomas Sawner, CEO
Arlington, Virginia
Company website: <http://www.edoptions.com/>

“Small business owner Tom Sawner says the Section 179 expensing benefit of the Economic Stimulus Act of 2008 has prompted him to pull the trigger on purchasing equipment needed to expand his business—purchases he had delayed until now. ‘Yesterday, we purchased two new servers and two new routers, and we plan to upgrade or replace 20-30 office computers,’ said Sawner. ‘Additionally, we made several major upgrades to our main server array.’ His company, Educational Options, Inc., provides web-based curriculum to more than 1,200 schools and 25,000 students nationwide. “As EdOptions prepares to expand and move to new offices this quarter, this incentive is a big boost to our purchasing power for needed equipment.”

2. Modern Technology Solutions, Inc.

Philip L. Soucy, Co-President and CEO
Alexandria, Virginia
Company website: <http://www.mtsi-va.com/>

“Modern Technology Solutions, Inc. (MTSI), an Alexandria VA based engineering services company, has grown significantly over the past few years, and large growth usually coincides with a need for significant IT upgrades. Due to the extra deductions allowed for investment costs in the Economic Stimulus Act of 2008, the MTSI Information Technology (IT) Department has been able to effectively increase this year’s budget significantly, allowing for major equipment upgrades. This has provided us the tools to enhance the security and efficiency of the MTSI computer network that would likely have been impossible without the Stimulus Act. In addition, we have been able to make major equipment upgrades at several of our branch office locations, such as our offices in Ohio and Alabama. Prior to the

Stimulus Act, these offices had little to no network security, and their networks were managed by non-IT personnel due to geographic and budgeting constraints. Due to the Stimulus Act, MTSI now has the ability to tie all branch offices together into one centrally-managed hub. In turn, the time spent by non-IT per personnel has been greatly reduced, and network security and employee productivity have increased. **In short, the Stimulus Act has proven to be one piece of legislation that MTSI is very thankful for.**

3. Royal Concrete Concepts, Inc.

Wallace "Wally" Sanger, President

West Palm Beach, Florida

Company website: http://www.royalconcreteconcepts.com/a_about_us.php

"Royal Concrete Concepts had a deposit on an additional crane for our manufacturing facility in Okeechobee, Florida, and we were not sure when we would take delivery.

The Economic Stimulus package passed and the bonus depreciation on this purchase of a \$590,000 IS 70 Shuttlelift Gantry Crane (70 ton crane) helped spur our decision to move forward and take delivery on this third new crane for our new manufacturing facility."

4. Signal Metal Industries, Inc.

Ryan Robinson, CEO

Irving, Texas

Company website: <http://www.signalmetal.com/HIST/history.html>

"We are huge fans of the President's new stimulus package. I'm most excited about the increase for Section 179 deductions for purchases up to \$800K starting immediately in 2008. Since the early 2000's, when we were first allowed increased depreciation and bonus depreciation, our company has made specific decisions to buy new instead of continuing to repair our older capital equipment. Being a large manufacturer, we found that the tax savings finally made a difficult purchase decision a "no-brainer". Over the last two years, we have purchased various heavy equipment including welding machines, two 18-wheelers, a farm tractor, two large CNC horizontal boring machines, a CNC drilling machine, a paint booth, 10 or more overhead cranes, and much more. **Not only do we get the tax savings, but just as importantly, we also get the benefits of better, more production, more reliable equipment which absolutely helps us compete with the likes of Mexico, China, and India.**

During the years when it was pegged at only \$400K or so we wanted to do more but didn't because it would have eroded our tax savings. Now we can do more and will. **In 2008, since the stimulus package was announced, we have already spent over \$500K and will definitely take our capital purchases right up to the \$800K mark so we can maximize our bottom line savings.** Section 179 works – it makes companies want to spend money. I just hope that enough people know about it – no just so they can get the tax deduction after the fact but rather so they can use the information to make purchase decisions.

By the end of 2008, our relatively small company will have easily spent two million dollars directly into the US economy that I certainly believe would not have happened had there never been the added 179 deduction."

5. Tyler Construction Group, Inc.

Charles Tyler, President

Columbia, South Carolina

Company website: <http://www.tyler-construction.com/index.shtml>

"My brother, our partner, and I are in the process of trying to buy out the retiring founder of Tyler Construction so capital is real tight. Our single dump truck is one of our most critical assets that we keep on the road constantly. **We jumped at the chance to replace our older truck mainly because of the stimulus package.** As a small business owner this has been a real help in growing our company in these challenging times."

6. Wall-to-Wall Studios, Inc.

James Nesbitt, President

Pittsburgh, Pennsylvania

Company website: <http://www.walltowall.com/flash.html>

"In early 2008 W|W faced a dilemma: Renew their existing office lease or find a new location. They were close to outgrowing their current office but it would suffice in a pinch. Due to poor economic conditions back in 2001 they took over their current space which was located in the same building because they had outgrown their previous office. Unfortunately it never fully suited the needs of their growing company both in terms of space and layout.

The prospect of a new office would provide the first opportunity in 14 years to actually design an office around the way the company works which would improve the workflow and provide necessary room for growth down the road. However, the thought of investing significant resources in building out a new space at a point where the expanding economy was once again showing signs of slowing down seemed less than prudent. Regardless, they decided to explore all the options.

After visiting many potential sites they came across a very promising location in a growing section of their city. The lease terms were in line with their lease extension rate but the out of pocket costs, as with any office relocation, were still going to be significant.

"As we were working with the landlord on the design and cost sharing aspects of the project, the Economic Stimulus Act was being actively debated in Washington. Our build out posed a unique challenge in terms of striking a balance between providing a work environment that matched both our creativity and workflow needs with the budgetary constraints," said Brian Kaiser, CFO and Partner of the firm.

"The Bonus Depreciation provision of the Stimulus Act certainly helped both Wall-to-Wall Studios and our landlord, Northern Light Tower, overcome the economic side of the equation," added James Nesbitt, President and a Founding Partner.

"I was excited when Wall-to-Wall Studios approached me with their concept but I was quite certain it would have been difficult for both of us to achieve the end result within the budgets agreed to without the assistance of the Stimulus package," offered Jim Genstein of Northern Light Tower.

For Wall-to-Wall Studios this Stimulus package couldn't have happened at a better time."

7. 48HourPrint.com

Raymond E. Pinard, President/CEO

Boston, Massachusetts

Company website: <http://www.48hourprint.com/>

"48HourPrint.com is the leading commercial web to print commercial printer in the country. Our customers fulfill their commercial printing needs through internet technology in a seamless environment from the comfort of their home or office. All orders are taken over the internet, processed at our headquarters in Boston and printed at our own printing plants in Cleveland and Phoenix. We employ about 85 people among the three facilities. Our sales for this year are approximately \$25 million.

Our company mission is summarized as Excellence, First Class, First Place. We emphasize a 100% Customer Satisfaction environment. With this in mind we cannot pass up the opportunities presented in President Bush's Economic Stimulus Package.

At this time, due to the cash flow benefits of the bonus depreciation, we will be replacing two 28 inch presses in Cleveland with a new Komori USA 40 inch press. This will also include a new Kodak 40 inch plate maker and assorted miscellaneous equipment and fit-up. The cost of this project is about \$2.250 million. We have already placed a deposit on the press and expect it to be fully operational in three months. This purchase will significantly improve productivity, efficiency and capacity in Cleveland, thus making us more responsive to the needs of our customers and allowing us to expand our business.

In addition, the incentive provided by the bonus depreciation will accelerate our plans to enter into variable data printing, a new service for our company. We will be purchasing two digital presses, at a total cost of about \$1,000,000. At this time we are looking to purchase these machines from Hewlett-Packard. Moving into digital variable data printing will allow us to move into new areas of printing and entirely new markets."

8. Permac Industries

Darlene Miller, President/CEO

14401 Ewing Avenue South
Burnsville, Minnesota 55306
Company website: <http://www.permacindustries.com/>

"2007 was a year of many changes for Permac Industries. We added an additional 16,500 sq. ft. of climate controlled manufacturing space for a total of 34,000 square feet including a shipping area that warehouses in-house inventory, an assembly area, offices for engineering, a climate controlled Quality Lab and administration offices.

Permac Industries is a "job shop" in that we do not have our own product, but custom manufacture parts to our customer's blueprints and/or specifications. Permac services a wide range of customers including companies in the industries of hydraulics, avionics, food and beverage, Department of Defense, automotive, medical and computers.

Cell development and robotic technology that we have only analyzed in the past (due to the initial startup equipment costs) will now be ordered and added to our equipment lineup to optimize efficiency and productivity. We will also start the negotiations for purchasing an additional mill due to this stimulus package which will allow for expanded capacity. In addition, we are reviewing an analysis for the purchase of a CNC Multi-Spindle Machining Center in 2008. This technology is new to Permac. The additional capability will allow Permac Industries to expand our market base and help with customer demand.

As our customer's demand faster, less expensive manufacturing, and with tighter profit margins due to increased competition, the need to evaluate and purchase new equipment technology is essential for our survival. For instance, we can create efficiencies by combining different manufacturing processes (turning and milling) on a single piece of equipment, rather than routing to different work stations and equipment.

With our present plan for growth, the stimulus bill just passed by Congress was a welcome boost to our plan. And, what purchases might have been pushed off to 2009, are now being actively considered for 2008 in view of the accelerated write off of new equipment."

Meaningful Tax Relief for Small Business - The Current Stimulus Package

Despite these bipartisan efforts to revive the economy, more needs to be done. Congress again faces very difficult decisions on what items to include in a second stimulus package in order to revive our economy. Most of the job creation in America is done by small and mid-size businesses -- 80 percent of net new jobs are created by businesses with less than 500 employees. These businesses truly are the backbone of our nation's economy and, therefore, must be a top priority for lawmakers. It is imperative that Congress incorporate measures into any legislation that will further incentivize business owners to expand and invest in their companies and their employees while also recognizing challenges to their long-term competitiveness.

Federal Individual Income Tax Rates

Many small businesses are organized as a Subchapter S Corporations, Limited Liability Partnerships, or Limited Liability Corporations for federal income tax purposes. This means that the profits are not taxed at the corporate level, but instead are passed through to shareholders who must then report the income (or loss) on their own individual income tax returns. While small business owners pay personal income taxes on the profits, the reality is that only a portion of the income generated by their businesses actually makes its way back to their personal bank accounts. Much of that income small business owners are being taxed on is actually reinvested in their companies in the form of expansion and new equipment.

Raising or lowering the individual federal income tax rates directly impacts the cost of capital for small and mid-size business formed as “pass through” entities. If Congress were to raise the individual income tax rates, capital would cost more and small business owners would have less money to invest in their companies. In contrast, by keeping taxes low, small and mid-size businesses can invest and grow and have greater ability to create jobs and help expand the economy.

As you look to addressing tax rates in the 111th Congress, the Chamber recommends that Congress lower all marginal tax rates, or, alternatively, at very least, keep those rates at present levels. By lowering or keeping rates at present levels Congress would enable small business owners to invest more in their businesses. Allowing these rates to increase would increase the cost of capital, diminish investment opportunities, and ultimately make small businesses less competitive, thus hampering job creation and leaving our nation less prosperous.

Short-Term Recommendations

In the short-term, the Chamber recommends that Congress consider including in any stimulus legislation provisions such as the following, which we believe would have an immediate positive impact on the economy:

- Issuing rebate checks would infuse cash into the economy, putting money in workers' pockets and stimulating consumption.
- Extending the carry back period from two years to five years would enhance the liquidity of businesses with current losses.
- Extending bonus depreciation and increased Section 179 expensing provisions, and adopting a temporary investment tax credit would promote investment during the current economic downturn and stretch scarce capital by lowering the cost of undertaking new investment.
- Providing temporary tax relief over one or two years for companies that purchase their own or related party debt at a discount would allow companies to withstand the economic downturn. Temporary suspension of this tax would create and preserve jobs, facilitate the deleveraging of the U.S. economy, and strengthen financial institutions' balance sheets. Congress has already passed similar legislation to help reduce mortgage debt and now should provide the same relief for companies that want to preserve jobs through reducing the company's debt burden.

- Reducing the corporate capital gains rate which would unlock appreciated assets held by companies, generating substantial tax revenues and at the same time providing much needed capital that could be redeployed more efficiently into the economy.
- Extending the reduced tax rate on dividends and capital gains will give taxpayers greater incentives to save and invest, which will add to our capital stock and increase productivity.
- Provide for a payroll tax holiday, which would put money in the hands of small business owners to invest in their business and would increase economic activity by allowing workers to take home more of their own paychecks.

Other Provisions

Pension Plan Recommendations

The Chamber appreciates the work of Congress in passing the Worker, Retiree, and Employer Recovery Act of 2008; however, additional pension provisions are crucial for employers and are directly related to the current financial crisis – the expansion of the funding corridor and automatic approval of funding method election changes. Current funding rules allow unexpected gains and losses to be smoothed out to a very limited extent, so that the smoothed value stays within 10% of fair market value and affect many small businesses. Given that the equity markets have fallen by half or more, the 10% limit on smoothing is extremely restrictive. Therefore, it is critical that asset smoothing apply without percentage limitations in 2009 and 2010.

In addition, broader flexibility in the election of funding methods is very much needed, and would go a long way toward helping companies weather this pension storm. Generally, IRS approval is required to change funding methods. Given the enormous changes over the past several months, companies need to reassess their funding methods to find those best suited to maintaining their plans going forward. For 2009 and 2010, the Chamber recommends allowing funding methods to be changed without IRS approval.

Repeal of the 3% Withholding Tax

Section 511 of P.L. 109-222 requires a 3% tax withholding on all government payments, which affects all government contracts as well as other payments, such as Medicare, grants, and farm payments. While this requirement is not set to go into effect until January 1, 2011, companies, as well as federal, state, and local governments are expending funds starting to prepare for implementation now. These are needless preparation expenses, particularly during rough economic times, for a requirement that most believe should never have been enacted and should be repealed. The Department of Defense estimated that the costs to comply with the 3% withholding requirement will be in excess of \$17 billion over the first five years, which is far more than any estimated revenue gains. While \$17 billion is substantial, it is only a portion of the additional costs with which governments and the private sector will be burdened. Accordingly, the Chamber supports including a repeal of the 3% tax withholding law in any upcoming stimulus package.

Access to Capital Provisions

Small businesses are the backbone of the economy providing 60 to 80 percent of net new jobs. Access to capital is a critical component for small enterprises if they are to fully unleash the job creating engine that will be vital in igniting an economic turnaround for the country. Regrettably, due to the turmoil in the financial markets, small business owners have reported to us that traditional avenues entrepreneurs use to finance their operations and grow businesses have been disrupted, limiting their ability to expand and in some cases even survive. Therefore, reestablishing the availability of capital as quickly as possible to small business owners should be an important element of any attempt by Congress to stimulate the economy.

One source of funding, the Small Business Administration's (SBA) 7(a) and 504 government guaranteed loan programs, play an important and essential role in providing an alternative means of obtaining capital for many small business owners where funding has not been available through conventional lending methods. These programs provide forty percent of all long-term funding for small businesses. Unfortunately, at a time when SBA lending programs are needed the most, lending volume has dramatically declined and is still at depressed levels.

In order to increase access to capital for small businesses so they can create jobs and help us revive the economy, the Chamber strongly supports the following legislative efforts:

Dramatically reduce the borrower and lender fees for the SBA 7(a) and 504 programs. Significant fee reductions will incentivize the existing infrastructure of financial institutions to lend and will make funds more affordable for small businesses to borrow for their enterprises. Many small business owners cannot wait for new untested programs and processes to be developed as contained in the House-passed stimulus bill, no matter how well-intentioned, in order to access funds to run their businesses.

Additionally, short term programs may have the unintended consequence of further emaciating traditional channels of distribution. When the temporary program expires, resources from traditional avenues of credit may be depleted. Additional incentives may have to be injected into the 7(a) and 504 programs in order to provide the ability for the private sector to fully come back on line. During the transition, small businesses may find a less than robust market available for small business lending.

Make program changes that will increase the government guaranteed percentage portion of SBA 7(a) loans. Appropriate increases in the federal government guaranteed portion of the loan would reduce risk to financial institutions and provide additional incentives for the industry to underwrite small business lending during a time when increased business default risk exists.

Address Secondary Market Issues. Program changes to the SBA 7(a) and 504 lending program that will provide more liquidity for these loans to be sold on the secondary market further incentivizing banks to participate in this program. Additionally, many of the 7(a) and 504 loan packages that have been purchased on the secondary market, even though they are guaranteed by the government, remain illiquid. Measures should be taken to free up these assets either by repurchasing them as envisioned by the Treasury's Term Asset-Backed Securities Loan Facility program (TALF) or through another strategy that will incentivize a competitive after-market for pooled loans.

Additional Comments on Small Business Administration Programs

Small Business Development Center's (SBDC)

SBDCs help small business owners and aspiring entrepreneurs to start and grow their small businesses by teaching them the skills they need to succeed in the modern marketplace. In the process, SBDCs promote small business ownership, entrepreneurial activity, job creation and economic prosperity.

Federal SBDC funding is an investment that leverages even greater non-Federal resources, and returns more to the Federal Treasury as a result of economic growth than it costs Federal taxpayers to fund the SBDC program. However, the effects of inflation over the years and the increased demand for services as a result of the economic downturn severely limiting the SBDC network's ability to serve small business owners and aspiring entrepreneurs throughout the nation. For this reason the U.S. Chamber requests additional funding over last year.

SCORE

Government policies that foster and encourage robust entrepreneurial activity and small business ownership provide the basis for economic prosperity important to the long-term vitality and success of our nation. One such policy is our investment in SCORE.

SCORE volunteers assist more than 468,000 entrepreneurs annually in starting, growing, and expanding their businesses. It is vital to have a well-funded SCORE infrastructure in place so that its 11,000 volunteers can provide a cost-effective way to help these small business owners develop the skills they need to manage cash flow, restore markets, bolster revenue streams and increase sales -- while creating new jobs and increasing state and federal revenues.

Regrettably, in recent years, the impact of inflation combined with flat funding appropriation levels from Congress has eroded the ability of this program to be fully effective. Moreover, the recent gravity of natural disasters and the economic downturn have put additional strains on centers attempting to help small businesses recover, further encumbering the economic vitality of those regions affected.

The U.S. Chamber of Commerce supports increasing the appropriations for SCORE to \$10 million in order to help educate and advise displaced workers looking to start a small business as an alternative for looking for employment.

Veterans Programs

As the new administration implements policies involving troop withdrawals, many of America's heroes will be coming back to a less than robust economy seeking employment. Many veterans will seek the avenue of business ownership as a viable alternative to finding a job. Mindful of this the SBA's Office of Veterans Business Development must be prepared with the adequate resources to play an important role in this effort.

The Office of Advocacy

Small businesses bear a disproportionate regulatory burden. According to a report by the Small Business Administration, the total cost of federal regulations exceeds \$1.1 trillion; the cost per employee for firms with fewer than 20 employees is \$7,647 which is 45 percent for small firms than their larger counterparts.

The Office of Advocacy plays a vital role for small businesses in the regulatory process. The effectiveness of this office is achieved by their ability to advocate as an independent voice on behalf of small businesses within the administration. However, the Office of Advocacy is currently funded as part of the total Small Business Administration's budget, rather than with its own budgetary independence. Requiring the transparency of a line-item within the federal budget will provide further assurances that the Office of Advocacy is not subjected to partisan pressures that may undermine its mission and effectiveness on behalf of small businesses.

Additionally, with a new administration now in place elected with the mantra of change, a new regulatory agenda has already begun to emerge. While well intentioned, many of the regulatory efforts may have unintended consequences on the small business community. It is important to have a strong bi-partisan Chief Counsel appointed expeditiously that will be able to advocate on behalf of the small business community within the administration. The Office of Advocacy has had a long tradition of bi-partisan support since its inception in 1976.

The Office of the National Ombudsman

Small business are faced with the daily challenges of complying with the thousands of pages of regulations that are generated by almost forty government agencies on an yearly basis -- and that's just what is produced at the federal level. If you measure the cumulative effect of all federal, state and local regulations on the small business owner, the prodigious task of compliance becomes overwhelming.

Typically the small business owner is the human resources director, the maintenance engineer, the industrial hygienist, as well as serving in many other positions that demand in-depth understanding and meticulous implementation of a plethora of rules and regulations. The

small business owner is faced with the presumption of knowledge of an array of confusing and sometimes conflicting mandates from regulators with heavy penalties for non-compliance.

Now twelve years old, the regulatory fairness program, RegFair, offers an incentive for agencies to change their culture and treat small businesses as partners. The primary mission of the program is to encourage a regulatory enforcement environment that is fair to small business. It is the current intent of the National Ombudsman to engender greater compliance by more consultation, communication, partnerships, accountability and feedback on behalf of small business and Federal agency enforcement communities.

In order to encourage agencies to make changes, the RegFair program requires the National Ombudsman to file an annual report to Congress on an agency evaluation of enforcement and compliance activities. The annual report provides information and a rating system that praises those agencies that have successfully implemented cultural change. Agencies that resisted structural change that would have allowed greater sensitivity to regulatory enforcement concerns of small business are singled out in the report for criticism.

The strength of the Office of the National Ombudsman's program in the future will depend directly on its ability to work in concert with the Office of Advocacy, trade associations, Federal agencies and Congress to promote and ensure a more small business friendly regulatory environment. With the current administrations emphasis on increased compliance and enforcement, it will be imperative to have strong leadership in place as soon as possible in order to maintain safeguards for the small business community.

The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs

Congress established the Small Business Innovation Research program in 1982 to use innovative talents of small businesses to help meet the government's research and development needs at a time when there was significant concern that the United States was falling behind its global competitors in developing innovative technologies. Our technological supremacy is again being challenged, yet SBIR and STTR currently do not enjoy a long-term reauthorization. In order to make sure that small businesses are fully involved in advancing the nation's innovation and technology we need to expeditiously pass a comprehensive reauthorization of these two programs.

Additionally, the Congress, the New Administration and the American public are looking toward innovation and technology as the solution to secure our energy future and address issues involving climate change. Small businesses must be positioned to have the resources necessary to unleash their creative abilities and play an effective role in this effort.

The U.S. Chamber of Commerce calls upon this committee to take a compromise approach to passing SBIR/STTR reauthorization similar to what was unanimously passed by this committee last year.

CONCLUSION

I appreciate the opportunity to submit these comments for the record on proposals that will be helpful to small businesses. I look forward to working with you and the Committee to champion and put in place policies that unleash the innovative ability and entrepreneurial spirit of America's job creators — our small and mid-size businesses.

Attachment 1

U.S. Chamber of Commerce "Friends of the Chamber" Survey January 28, 2009

Which of the following principles do you support most to get our economy moving again?

Providing meaningful tax relief for large and small employers and incentives for Americans to invest their hard-earned dollars. (38%)

[REDACTED]

Reducing borrower and lending fees through the Small Business Administration to open up credit markets and provide immediate relief to our country's small businesses. (33%)

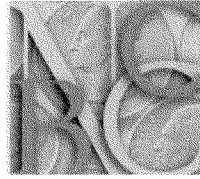
[REDACTED]

Creating new jobs through targeted infrastructure funding. (20%)

[REDACTED]

Supplying tax credits to the housing industry to provide immediate assistance to America's homeowners. (9%)

[REDACTED]



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RECOMMENDATIONS FOR THE 111TH CONGRESS AND PRESIDENTIAL TRANSITION TEAM

Background –

There have been many challenges set before minority owned businesses who seek to do business with the federal government. The first of recent challenges began in the mid-1990's with the "Reinventing Government" campaign that shifted much procurement activity to bundled packages. This brought in an atmosphere where small, especially minority businesses, could no longer compete for prime contracts and were excluded from subcontracting.

There were some federal agencies such as Defense and Treasury that no longer put emphasis on Small Disadvantaged Businesses (SDB's) and 8a firms. Treasury Secretary Rubin told me to my face that he did not approve of affirmative action. Secretary Summers, his successor, felt the same and attempted a race neutral concept known as BusinessLinc. It was a disaster as all race neutral programs are.

Transportation Secretary Slater gutted the civil rights staffing for the Federal Highway Administration beginning in the late 1990's. He changed rigid goals for waivers and the state recipients of highway funds were able to downgrade any minority business programs such as the Disadvantaged Business Enterprise (DBE) program. Fraud with the DBE program became rampant with the Federal Aviation Authority via store ownership at airports. The Federal Highway Administration even canceled Executive Order 11246 (attached) which was the start of affirmative action initiated by President John F. Kennedy. How this was legally done is still beyond me. One thing is certain: Black business participation and the hiring of Black workers within the authority of the Federal Highway Administration have been all but eliminated.

8a volume with the federal government started dropping at the rate of \$1 billion per year beginning with FY1996. If you pull Alaska Native Corporations from those numbers you will find that the decline has not stopped.

The Office of Small Disadvantaged Business Utilization (OSDBU) has become for the most part a “joke” in terms of effectiveness and authority (with the exception of HUD). There was such a lack of oversight that the widely publicized “Mentor/Protégé Program” became a criminal operation. The DOD OSDBU who was in charge of this program is now serving a 24 year prison term in maximum security for soliciting major bribes.

The Office of Management and Budget has become no friend of minority business. Every time there is an “emergency” such as 9/11, Iraq War, Katrina, Bailout, etc. the first thing OMB does is declare a waiver from the Federal Acquisition Regulations (FAR) and eliminates affirmative action. There is lip service but no true effort at diversity.

When the National Black Chamber of Commerce, Inc. was formed the SBA had an annual budget of about \$900 million. Today, that budget is about \$470 million. It has been emaciated and there is no viable operation out in the field. We embedded our activity in the Gulf Coast Rebuilding for the last three years. We have yet to see an employee of the SBA in the state of Louisiana. There is some SBA activity in Mississippi but there has been none in Louisiana. We have had three annual conventions and many workshops in New Orleans and have offered the SBA district office free access to these events (the district office is within walking distance of these events) and never has an SBA employee attended. There has been generated a lot of contracts that we are proud of but no credit can be given to the SBA. Such is the case around the nation. In effect, we have no SBA. The SBA is becoming such a nonentity that they have even stopped certifying businesses for SDB status. This is devastating.

A Model to Emulate –

There has been one “shining star” amongst this mass of neglect and discrimination. The US Department of HUD under Secretary Alphonso Jackson has shown that success in diversity is quite possible with just a true commitment. In just one administration, this large federal agency became the leader in contractual performance with small, minority business (SDB and 8a). How did he do it?

The first thing was to remove the career employee at the OSDBU office and replace him with a political hire. One whose commitment to the mission and loyalty to management was apparent. He then empowered this new OSDBU with direct access to the Secretary himself. All (ALL!) contracts had to be reviewed by the OSDBU for compliance. The OSDBU had veto power on any contract that did not meet the commitment level of the Secretary. Only the Secretary himself could override the OSDBU veto. It did not take the procurement department long to realize that a commitment to diversity was a requirement for all working at HUD. HUD began to scrub the 8a portfolio and communicate with these businesses.

It was beautiful to see on the HUD website procurement opportunities that were populated with SDB set asides and 8a set asides particularly in the Request for Proposal (RFP) category. This was perfectly legal with professional service contracts. NBCC

members were totally invigorated in this new pool of opportunity and actively participated.

In addition, HUD orchestrated many procurement fairs and workshops around the nation in its outreach to minority business. The results were amazing. HUD now leads the federal government in small business participation, SDB business participation and 8a business participation. All it takes is an organized commitment and courage from the top.

Recommendations for Change –

1. Use the HUD Model (per Secretary Alphonso Jackson) as a model for all federal agencies. The OSDBU's should be political hires with business experience and a proven commitment to diversity. Each OSDBU should answer directly to the Deputy Secretary or the Secretary and must have veto power over procurements that lack diversity. Diversity in contracting must be highlighted in the performance reviews of each Deputy Secretary and Secretary.
2. Restore Executive Order 11246 to the Federal Highway Administration immediately and staff it accordingly for proper implementation. Assign "floor" goals to each state recipient of federal funds and enforce them. States such as California have never been in compliance with the USDOT DBE program and after 27 years of implementation perhaps we should make it a reality.
3. Return to enforcement of the Federal False Claims Act in regards to contracting. Fronts, fraudulent activity, false minority business reporting should be dealt with firmly by our Justice Department. Establish a "False Claims Hotline". The NBCC alone would keep the activity going at full force.
4. Fund the SBA so that it can accomplish its mission. \$2 billion would be a great start. Each district office should be the center of technical assistance, lending activity and contractual consulting for every community in America.
5. Restore the Mentor/Protégé program and put it under the direct oversight of OMB. The failure with it before was that there was poor oversight if oversight at all.
6. Include diversity in the TARP program (Bailout). To date, this has been a virtual whites only program sponsored by the federal government and the US Congress. It's a flashback to the pre-civil rights era.
7. Restaff and invigorate the Title VI (US Civil Rights Act of 1964) office of the USDOJ Civil Rights Office. Oh, how we yearn for another Deval Patrick. Recruit someone of that ilk.
8. Legislate a renewal of the White House Conference on Small Business. We must engage our small businesses in the governmental process once again. These conferences were very successful and provided great insight for Congress and the Administration on pertinent issues confronting small businesses.
9. Have the US Commission on Civil Rights (once it is staffed with competent people) to perform a Title VI (US Civil Rights Act of 1964) audit on all federal agencies. The last one, done in the 1980's, was quite helpful and provided much opportunity. The EPA is now one of a few agencies addressing Title VI enforcement.

10. Section 3 of the HUD Act, 24CFRpart135, is sparsely enforced by recipients of HUD funding. It is at about 5% compliance which is better than the 0% compliance when the NBCC started addressing this issue. This is a business incubator and job creator for those at risk. We must do better especially in these economic challenging times. Governors, mayors, county councils, public housing authorities must start complying with this economic development program written to address urban areas living under the poverty level.

I could go on and on but the above would be a fantastic start to the Change we all look forward to. The NBCC has 151 chapters throughout the United States and 40+ more else throughout the world. We are the largest Black business association on the globe and please count on us to be your partner in this great endeavor – diversity within our economy.


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U.S. Department
of Transportation
**Federal Highway
Administration**

Order

Subject
**CLARIFICATION OF FEDERAL HIGHWAY ADMINISTRATION (FHWA)
AND STATE RESPONSIBILITIES UNDER EXECUTIVE ORDER 11246
AND DEPARTMENT OF LABOR (DOL) REGULATIONS IN 41 CFR
CHAPTER 60**

Classification Code
4710.8

Date
February 1, 1999

- Par. 1. Purpose
2. Background
3. Applicability
4. Authority and Responsibilities
5. Cancellation

1. **PURPOSE.** To define FHWA's authority and responsibility concerning Executive Order (EO) 11246, as amended, and DOL regulations, set forth in 41 CFR Chapter 60.
2. **BACKGROUND.** Under EO 11246, "Equal Employment Opportunity," the FHWA is required to include certain nondiscrimination and equal employment opportunity provisions in direct Federal contracts and federally assisted construction contracts. The provisions have been established by the DOL, Office of Federal Contract Compliance Programs (OFCCP) and are set forth in 41 CFR Part 60-1, "Obligations of Contractors and Subcontractors," and 41 CFR Part 60-4, "Construction Contractors Affirmative Action Requirements."
3. **APPLICABILITY.** This Order applies to all direct Federal contracts and federally assisted construction contracts and subcontracts.
4. **AUTHORITY AND RESPONSIBILITIES**
 - a. **Department of Labor:** Under Section 303 of EO 11246, only the DOL has the authority to determine compliance with EO 11246 and its implementing regulations. The FHWA and the State highway agency do not have independent authority to determine compliance with EO 11246, 41 CFR Chapter 60, or the minority and female participation goals established by OFCCP, pursuant to 41 CFR Chapter 60.
 - b. **State highway agencies and FHWA:**
 - (1) The State highway agency and FHWA have responsibility to ensure that recipients of Federal-aid funds include the required contractual language relating to equal employment opportunity, as set forth in 41 CFR Parts 60-1 and 60-4, either explicitly or by reference.
 - (2) The State highway agency and the FHWA have the authority and the responsibility to ensure compliance with 23 USC Section 140 and Title VI of the Civil Rights Act of 1964, as amended, and related regulations, including 49 CFR Parts 21 and 23, and 23 CFR Parts 200, 230, and 633. Pursuant to this authority, the State highway agency and the FHWA may conduct compliance reviews of contractors on federally funded highway projects to determine compliance with these laws and related regulations. State highway agencies shall prepare complete, written reports of findings of the compliance reviews. These reports, and the evidence on which they are based, shall be available for FHWA analysis.

(3) If the State highway agency or the FHWA becomes aware of any possible violations of EO 11246 or 41 CFR Chapter 60, each has the authority and the responsibility to notify the OFCCP.

(4) The FHWA and the State highway agency shall not make any determinations regarding compliance with EO 11246 or 41 CFR Chapter 60.

5. **CANCELLATION.** The FHWA Form 86, Compliance Data Report, is hereby canceled.

Original signed by:
Kenneth R. Wykie
Federal Highway Administrator

Related Sites:

[Leadership Conference on Civil Rights - The Executive Order on Affirmative Action \(E.O. 11246\): One of Our Nation's Most Successful Civil Rights Programs](#)

[FHWA Home](#) | [Directives](#) | [Orders](#) | [Feedback](#)



United States Department of Transportation - **Federal Highway Administration**